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China Report

ECONOMIC AFFAIRS



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CHINA REPORT ECONOMIC AFFAIRS

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PROVINCIAL WORK REPORTS

FUJIAN'S HU PING PRESENTS GOVERNMENT WORK REPORT

OW100355 Fuzhou FUJIAN RIBAO in Chinese 1 Apr 84 pp 1-2

[Report by Hu Ping, governor of Fujian: "Persist in Opening to the Outside World. Enliven the Urban and Rural Economy"--delivered at the Second Session of the Sixth Fujian Provincial People's Congress on 12 March 1984; passages within slantlines printed in boldface]

[Text] Fellow deputies:

At the request of the provincial people's government, I am going to make a government work report, entitled "Persist in Opening to the Outside World, and Enliven the Urban and Rural Economy." Your examination and approval are requested.

The Year 1983 in Retrospect

The year 1983 was the first year this government functioned. Led by the CPC Central Committee, the State Council, and the Fujian Provincial Party Committee, this government in accordance with the requirement "be determined to carry out reform and revitalize Fujian" promulgated by the first meeting of the Sixth Fujian Provincial People's Congress, began carrying out reform, and successfully expedited the development of economic construction, and various other projects.

Basically accomplished last year were the restructuring of provincial, prefectural, and county administrative organs, and the cooperation between old and new cadres, and the succession of the old by the new. The average age of the members of various leading bodies is now less, and the level of their professional and general education is higher. The average age of new departmental and bureau directors is 5 years younger than before, and 39 percent of them are college educated, compared with only 18 percent in the past. The average age of prefectural administrators, mayors, and county magistrates is now below 50 years old, and over 50 percent of them are college educated. Following the adage of "giving a rider a hand to mount a horse, and then escorting him for a while," the veteran cadres have actively supported and assisted the newly promoted comrades to do their job well, thus demonstrating the veteran comrades' high sense of responsibility towards the revolutionary cause. Redemarcation of administrative districts was also carried out last year. With the State Council's approval, Fujian Prefecture has been replaced

by Putian Municipality, and Fuzhou and Sanming municipalities have adopted the system of exercising jurisdiction over their surrounding counties. Economic reform continued to expand from the industrial and agricultural sectors to various production and distribution sectors. After having been stabilized, the system of responsibilities in agricultural production continued to improve. The system of contracted responsibilities, primarily based on the household with remuneration linked to output, has been extended from agriculture to the forestry, animal husbandry, sideline production, and fishery sectors, and adopted by enterprises in various townships and towns. The number of specialized and key households and economic complexes engaged primarily in commodity production, accounted for 17 percent of the total number of rural families in the province. After acquiring greater decision-making power, industrial enterprises have adopted all forms of responsibility systems, combining responsibilities, authority, and profits, and continued to push forward reorganization and integration of industrial enterprises, and set up a number of new corporations and general plants engaged in specialized production. The distribution channels have been further broadened, the supply and marketing cooperatives in rural areas have once again become cooperative commercial units and both collective and individually-operated commercial units have developed rather quickly in urban and rural areas. Reform and experimental measures have also been carried out, one way or another, in departments in charge of planning, financial affairs, wages, monetary affairs, and capital construction. The first step in substituting profits for taxes have been taken by over 90 percent of state-owned enterprises. All these preliminary reforms have played a positive role in expediting our economic development.

Last year, Fujian's total industrial and agricultural output exceeded 16.26 billion yuan, topping that of 1982 by 7.5 percent, and overfulfilling the annual plan. Earlier this year, we implemented the No 1 Document of the CPC Central Committee and formulated "The 10 Provisions on Further Expediting the Rural Economy," which have expedited the rural areas' economic development. Despite frequent natural disasters last year, plus decreased output of oil-bearing crops, sugarcane, jute, tobacco and other major economic crops, owing to readjustment of policies, the total value of agricultural output was still 7.2 percent higher than in the preceding year, the total grain output reached 17.16 billion jin, topping that of the preceding year by 190 million jin, and forestry, animal husbandry, sideline and fishery output also exceeded that of the preceding year. Because of gradual changes in agricultural production, more and more people in the rural areas have turned to development-type production, such as tapping the resources in the mountains and sea, and have been actively engaged in building the "eight big bases." In industrial production, we have surmounted the difficulties caused by shortage of energy, transportation facilities and light industrial raw materials by streamlining production management, readjusting product mix, and increasing the output of marketable goods. Consequently, the total value of industrial output exceeded 9.58 billion yuan, exceeding that of the preceding year by 7.7 percent as well as the projected target. By renovating the Fuzhou-Xiamen Highway, we changed the disorderly and congested traffic conditions, and raised transportation efficiency on this highway. In implementing the decision of the party Central Committee and the State Council on curtailing the scale of capital construction

to ensure the work of key construction projects, we took resolute measures to cancel or defer 494 projects, thus cutting the amount of investment by 247 million yuan. In the meantime, we took proper steps to concentrate our financial and material resources on the construction of a number of key projects. This brought about better investment results than the preceding year.

Regarding foreign economic work, emphasis was placed on using foreign capital and technology to transform old enterprises and to build the Xiamen Special Economic Zone. Early last year, we mapped out a 3-year work plan for transforming our existing enterprises by using 312 different technologies to be introduced from abroad. To carry out this plan, we adopted a policy of encouraging the use of foreign technologies, and formed a special group to assess, examine, and approve requests for introducing foreign technologies to our province. The group traveled from place to place in order to do its ground work. Last year, there were 107 projects introducing foreign technologies into the province, and 40 of them were put to use. Meanwhile, a total of some 47.9 million U.S. dollars of foreign capital were introduced into our province, through the use of low-interest loans from Kuwait, the issuance of bonds in Japan, and other channels. The Xiamen International Airport and the No 1 and No 2 berths of Dongdu Harbor were put into operation, and the Fuzhou program-controlled telephone service was opened in its entirety. Despite the general slackness in international trade, the total amount of our province's exports last year still exceeded the preceding year by 3.9 percent. Last year was the 70th anniversary of Jimei School, founded by the noted overseas Chinese, Mr Chen Jiangeng. To mark this anniversary, we carried out ceremonious commemorative activities in Xiamen and Guangzhou, along with more than 1,000 returned overseas Chinese and compatriots from Taiwan, Hong Kong, and Macao. In addition, as many as 210,000 people, including Chinese and foreign nationals, came to our province for visits, either as tourists or as visitors to call on their relatives at home, or as visitors under economic and cultural exchange programs. Such a large number of visitors, indeed, showed a remarkable increase over any of the previous years.

The question of commodity prices in the market, which draws close attention from Europe throughout the province, was one of the matters the governments at all levels put high on their agenda last year. Last year saw the adoption of a more flexible policy for purchasing and marketing certain commodities, and the use of diversified methods for doing business. As a result, commodity supplies in both cities and countryside were more abundant than ever, and the total retail sales reached some 6.69 billion yuan, up by 8.2 percent from the preceding year. Because of our efforts, the upward trend of commodity prices was not so prominent as before. However, the prices of nonstaple foods at urban and rural fairs are still rather high, and in the case of some industrial products, the prices have been raised in a disguised form. We should take further steps to solve these problems.

The situation of financial revenue and expenditure was better than expected. To further improve the financial situation, the provincial CPC Committee and the provincial government took a host of emergency measures last year to increase revenue and cut expenditure. These included strengthening administrative work on the collection of industrial and commercial taxes, paying great

attention to stopping enterprises' losses and increasing profits, and conducting a general financial inspection in the province. Because of these efforts, we were able to fulfill last year's revenue and expenditure plan, and to keep the deficit under the ceiling set by the first session of the Sixth Provincial People's Congress.

Undertakings in the fields of science, technology, culture, and education continued to develop. Last year, despite our financial difficulties, we continued to increase our investment in education. Following a considerable increase in 1982, education expenses last year were boosted by a further 9.8 percent. Last year's expenses for public health work increased by 7.8 percent, while those for the three science and technology tasks [ke ji san xiang fei yong 4430 2111 0005 7309 6316 3938] and for developing science and technology undertakings went up by 9 and 11.8 percent respectively. The numbers of students in all kinds of schools at all levels showed a big rise, and there was an improvement in the quality of educational work. Science and technology work was oriented towards economic construction. Great efforts were made in research and development, and to apply and popularize new technologies and research results, thus contributing to the development of production, and the improvement of economic results. New advances were made in developing culture and art, press and publication, radio and television broadcasting, sports and public health work. Athletes from our province put up fairly good performances at the Fifth National Games. The work of family planning received public attention, and there was a decline in the natural population growth rate.

Preliminary success was also achieved in the enforcement of law, and in building a spiritual civilization. As a result of striking at criminal offenses throughout the province, public security and order has been conspicuously improved. Owing to sustained efforts in striking at economic crimes, over 600 smuggling cases and cases of trading in smuggled goods were cracked. Thanks to widespread development of "five stresses, four beauties and three loves" activities in urban and rural areas, and widespread education on socialist law and building civilized cities, villages and towns, a large number of advanced units and activists in promoting socialist ethics have come to the fore, bringing about a change for the better in the standards of social conduct, and in the people's spiritual outlook.

Fellow deputies: During the past year, changes have taken place on all fronts in our province, and the situation as a whole has been good. While this is the result of implementing the principles and policies adopted since the 3d Plenary Session of the 11th Central Committee and the line promulgated by the 12th party congress, and the result of hard work and arduous struggle by the broad masses of people in our province, under the direct leadership of the provincial party committee, it is also inseparable from the support and assistance rendered by the PLA units stationed in Fujian. Here, on behalf of the provincial people's government, and workers, peasants, intellectuals, and the broad masses of cadres in Fujian, allow me to express my heartfelt thanks to, and high respect for, the broad masses of commanders and fighters of the PLA, militiamen, public security officers, all retired veteran comrades, and all those who have contributed to Fujian's four modernizations; and also

allow me to express my cordial regards and heartfelt thanks to all countrymen living abroad, our compatriots in Hong Kong, Macao and Taiwan, and all foreign experts, who care for, and support, the construction in our province!

Although our province has achieved some successes in various fields over the past year, what we have accomplished still falls short of the requirements the party Central Committee has set for Fujian, and we still have not yet lived up to our overseas countrymen's expectations for our province. The development of our economic relations with foreign countries is still slow, and no significant breakthrough has been achieved in the use of foreign capital. Our economic work as a whole is still not active enough because of excessive controls, the development of commodity production is still slow, our distribution system is problem-ridden, and we still lack effective measures for carrying out our economic reform; the economic performance of our production, construction, and distribution is still unsatisfactory, our financial resources are still too diversified, and the growth of our profits, taxes, and output value has not yet been synchronized. This is primarily because the "leftist" mentality in our economic work has still not yet been thoroughly eradicated, our minds have not yet been adequately emancipated, our views on many issues are not identical, our leadership is not effective enough, our investigation and study are insufficient, and our work is not done in a down-to-earth manner. We must be soberly aware of these problems, and solve them earnestly.

Unify Our Thinking, and Create a New Situation

Over the past year and more, central leading comrades have issued a series of important instructions regarding the work in Fujian. In their important inscriptions, Comrade Yaobang has said: "It is hoped that Fujian will be a forerunner in the four modernizations"; and Comrade Xiaoping has instructed that "the development of the special economic zones should be faster and better." Comrades Ziyang and Xiannian have stressed that Fujian's economic development should proceed from the province's realities, give full scope to its superiority, import and adopt advanced technology, and accelerate the pace of construction, to make still greater contributions to the state. The provincial government holds that these important instructions will serve as the guiding principles for our various projects, and be the targets which we shall strive to attain. The primary immediate issue is to promptly change the situation characterized by differences in viewpoints among government departments, lack of confidence, and outmoded thinking, and to continue to unify our thinking, pluck up courage, and dare to create a new situation.

To unify our thinking means that we must have a consensus of views on the general task and objective, set by the 12th party congress, of achieving the four modernizations, quadrupling the nation's total value of industrial and agricultural output by the end of this century, and building a socialist material, and spiritual civilization, and on the congress' principles and policies for achieving this general task and objective. Since the specific principles for the work of various areas and departments are part of the party's general line and policy, the operational principles of each area, department or unit must be subordinated to, and serve, the party's general objective.

Fujian's economic construction is part of the nation's general goal--the four modernizations. When the party Central Committee authorized Guangdong and Fujian to carry out special policies and flexible measures in promoting economic relations with foreign countries, it clearly stated: "Seize the favorable current international situation, take one step in advance, and boost the economy as quickly as possible. This is an important policy decision, which is significant in accelerating our country's four modernizations." Actual experiences show that this policy decision by the party Central Committee is very correct, and fully accords with our province's realities. Some of our comrades, however, do not fully understand its strategic significance. Because of this, plus institutional problems and problems of work style, their actions are not positive enough. The reason why many things have not been accomplished, or have not been satisfactorily accomplished, is specifically because many opportunities have been forfeited as a result of our differences in understanding and our unconcerted steps. We are now confronted with a grim situation, marked by the new technological revolution in the world, and the challenge from the domestic and foreign market. If we seize this opportunity, take full advantage of our favorable conditions--such as Fujian's geographical proximity to Hong Kong and Macao, the large numbers of overseas Chinese, and the province's abundant natural resources--and boldly transform our outmoded enterprises and develop new industries by importing advanced foreign technology and management, our development can be much faster; otherwise, we shall always lag behind, let alone become "a forerunner in the four modernizations." For this reason, we should understand that it is not the responsibility of a certain department or district to expand foreign economic and technical exchanges, to build a special economic zone, and to create a situation for promoting economic relations with foreign countries, but it is the common task of government organs and departments at all levels throughout the province. We must fully understand this issue, display a strong sense of responsibility and urgency, closely integrate our operation with the policy of opening up to the outside world, consider our problems, plan our projects and carry out our work in light of how to attain the target of making Fujian a "forerunner of the four modernizations." Only by doing this will we have major plans, understand the whole situation, be capable of managing our work, subordinate our partial, immediate interests to the long-range interests of the whole, spur the work of the whole province with our work, and contribute our share to the realization of the general goal.

To seek unity in thinking means that our thinking must be unified on implementing the policies of opening up to the outside world, enlivening the domestic economy, and adopting special policies and flexible measures." To achieve this, the most important requirement is to delegate authority to various lower departments concerned, as two initiatives are better than one, trusting the lower departments is better than trusting only ourselves, and accomplishing a project with many people is better than accomplishing it with a few. Comrade Deng Xiaoping has pointed out: "When power is overly concentrated in one person or a small number of people, when the majority of people who do the actual work are not authorized to make decisions, and when the minority of people, who have power, are overburdened with work, bureaucracy is inevitable,

and all kinds of mistakes will certainly be committed." The reason we have been unable to fully enliven our economic work, and to create a new situation for promoting economic ties with foreign countries over the past few years, is because our minds have not been fully emancipated, and because we are not bold enough in transferring power to departments at lower levels. In the light of our province's actual situation, the provincial party committee and the provincial government have planned to delegate more authority to the lower departments in various sectors, including the economic, and the labor and personnel affairs sectors--with the exception of financial resources, which must continue to be concentrated, and the size of capital construction projects and foreign trade, which must continue to be curtailed or controlled. In order to really integrate authority, responsibilities, and profits, whatever an enterprise can handle, so it will be authorized. Likewise, whatever a locality can handle, so it will be authorized. In accordance with this guideline, the provincial government will study and draw up specific measures for implementation.

To unify our thinking means that we must have a healthy mental attitude, and work hard to destroy the old and establish the new. Achieving the four modernizations calls for a great, profound change, and we must continue to eliminate the influence of "leftist" ideology, and be bold in carrying out reforms and bringing forward new ideas. Up to now, some of our cadres have yet to thoroughly solve this problem. Some of them blame everyone and everything but themselves, and persistently emphasize objective difficulties. Others stick to old ways, and are good only at mechanically applying the outmoded rules and methods of the higher levels. Still others are irresponsible, dispute over trifles, shift responsibility onto others, and have no scruples about infringing upon the interests of the whole. This state of affairs is incompatible with the construction of the four modernizations. We must encourage cadres to boldly assume responsibility, and carry out their work resolutely and creatively. We must be bold in reforming all outmoded ideas, methods and conventions incompatible with the new situation, conditions and task. We must dare to explore, apply and popularize all sound methods and experiences conducive to the new situation, conditions and task. New leading bodies should have a fresh mental attitude, and work to create a new atmosphere in their localities or departments. Cadres in leading positions, who have long attempted or accomplished nothing, should have their jobs changed. We must not let them stand in the way of the people's undertakings.

Currently, we have many favorable conditions. After years of hard work, our material base has been greatly strengthened. Important basic facilities, such as newly-built ports, airports and communications facilities, as well as a large number of production projects, are gradually beginning to yield benefits. We have also accumulated some experience in economic work, involving foreign countries. The building of socialist spiritual civilization, and the strengthening of the socialist legal system have provided favorable political conditions for us to concentrate on the four modernizations. Therefore, we are fully confident that we shall be able to make new important progress in the coming year.

Major Tasks in This Year's Economic Work

The major economic work tasks set by the provincial government for 1984 are: Enlivening the economy, opening our door to the outside world, concentrating financial resources, achieving progress in science and technology, and delegating power to the lower levels. It is necessary to work hard to markedly improve economic results, create a new situation in expanding economic activities with foreign countries, achieve a new breakthrough in developing commodity production and enlivening the economy in both urban and rural areas, and achieve new progress in the construction of the "eight major bases."

1. Enlivening the Economy

To enliven the socialist economy, we must continue to soundly develop resources in mountainous and water areas, be good at utilizing relations between commodity and currency, have a good grasp of, and apply the law of value, develop commodity production, and promote an exchange of commodities.

/Further emancipate the mind and go all out to develop rural commodity production./ The provincial conference on rural work fully discussed, and made important decisions on, the continued implementation of the policy of never ignoring grain production and actively developing diversified undertakings, the stabilization and improvement of the system of contracted responsibilities with remuneration linked to output, large-scale development of commodity production, as well as ways to further enliven the rural economy. Government at all levels must earnestly implement them. Specialized and key households, as well as economic complexes, are the backbone of rural commodity production. We must encourage them politically, help them in production, offer them scientific and technological guidance, and provide them with market information and all kinds of services in a timely manner. In particular, we should render more support and help to households specializing in commodity grain production and commodity grain base counties. We should commend specialized and key households, which have become well-off through their hard work, and protect their legitimate interests. At the same time, efforts should be made to educate them to abide by laws and decrees, engage in legitimate business, and make more contributions. It is necessary to further relax policy restraints, encourage individual peasants, or groups of peasants, to open up waste land and plant trees on a contract basis, and pay close attention to the construction of 20-million-mu of fast-growing, high-yield forest bases. Efforts should be made to implement the policy of combining the breeding and catching of aquatic products, with emphasis on breeding, persistently implementing the policy of "responsibility beach" or "private beach," and fully develop and utilize seawater and freshwater resources to vigorously develop fishery. Village and township-run enterprises, which play an important role in the development of rural commodity production, should have sound development plans, be geared to the needs of domestic and foreign markets, and vigorously develop themselves. It is necessary to popularize Chendai Commune's experience among the returned overseas Chinese communities in coastal areas, fully utilize overseas Chinese and foreign

capital, actively introduce advanced technology and equipment, and develop new products. We should be concerned with, and support, economic development in old revolutionary base areas, and minority and outlying areas, relax policy restraints even more, provide them with capital and materials, and offer them cultural, scientific, and technological assistance in key areas to transform the poverty in these areas.

/Persist in regarding the enhancement of economic results as the center and organize industrial production well to provide markets with readily marketable commodities./ Overall consolidation of enterprises is an important step in upgrading their quality and enhancing economic results. It is necessary to adopt the method of "unfolding every aspect, providing different guidance for different categories, grasping key points and carrying out batch-by-batch inspection" and basically complete the consolidation of all state-run industrial enterprises, while stepping up the consolidation of enterprises in other spheres at the same time. The target of enterprise consolidation must be directed at achieving efficiency in actual work. It is necessary to do a good job in every basic aspect of enterprise management; to positively promote modern management methods; to establish sound enterprise and production management systems, intellectual development systems, new production development systems and political work systems; and to raise every indicator of economic results to a new level. It is necessary to positively readjust the product mix and make efforts to open a new front for developing new technologies, new raw materials, new products and new markets. The key point is to push forward the food, beverage, feed, textile, electronics, home electric appliance, forestry and chemical industries. It is especially necessary to catch the proper time to positively develop microcomputers and auxiliary equipment. In light and textile industry, it is necessary to shift the stress from solving the problem of supply to solving the problem of quality, to win the market with product quality instead of product quantity, to use administrative intervention and economic measures to support the production of fine-quality and brand-name products. It is necessary to try hard to alleviate the tense situation in energy and raw materials supply and in communications and transport work; to attach great importance to doing a good job in saving energy and carrying out planned supply methods with priority given to outstanding users; and to fully tap transport potential and organize the transport of supplies both inside and outside the province.

/Enliven the circulation of commodities and promote the production of commodities./ Procurement and marketing policies regarding agricultural and sideline products should be further relaxed and designed to win the people's confidence. Based on the principle of taking into consideration the interests of the state, the collective and the individual, as well as the interests of production and marketing, and the improvement of the supply situation, it is necessary to reduce the varieties and amounts of products for unified procurement and quota assignment and to stabilize and enforce such reduction for several years without a change. Permission will be given for sales, through multiple avenues and with adjustable prices, of agricultural and sideline products of the third category and those of the first and second categories that are permitted to be put on the market after producers have

fulfilled their assigned delivery and sales quotas. Individual peddling outside the county or the province is allowed. It is necessary to bring into play the role of state-run commerce, supply and marketing, grain, aquatic and other departments as the main avenue; to positively carry out negotiated procurement and sales; to ensure the supply of goods and lower market prices. Positive action should be taken to move industrial products to rural areas to expand sales. Fixed mutual commodity supply channels should also be established at counterpart specialized companies in urban and rural areas. It is necessary to strengthen market management; protect legitimate undertakings; stop illegal deals; and to attack swindling in trade, monopolization of the market, jacking up of prices and other illegal activities. It is necessary to consolidate collective and individual commercial undertakings and lead them into activities of developing repair, renovation, handiwork and other service trades in order to provide conveniences for the masses.

2. Open Up to the Outside World

To rejuvenate Fujian's economy, opening up to the outside world is indispensable. Currently, the party Central Committee's policies and measures, as well as the situation at home and abroad, are extremely favorable for our province. We should firmly grasp the opportunity and further quicken our steps in importing technologies and open the door [word indistinct] to the outside world so that we can turn our economic work with foreign countries from being passive to active, start changing our province's technological level from being backward to advanced, and enable our province to gradually change its economy from being inward-looking to outward-looking.

/Take greater strides in utilizing foreign capital to import technology./ In 1984, besides stressing the completion and start of projects remodeled with imported technology and the utilization of foreign capital to build more than 10 large- and medium-sized projects, including the Shaxikou hydropower station, the second-state construction of the Fuzhou fiberboard factory, the Kiamen (?sensitization) [Gan Guang 1949 0342] plant and the Shunchang cement plant, our province should delegate the power of examining and approving foreign-capital projects and boldly allow prefectures and counties to run large numbers of small-sized but specialized and technologically advanced projects to enable them to carry out varied economic activities with foreign countries. The provincial government intends to delegate to cities and counties the authority to examine and approve industrial, tourist and other projects with a total investment less than \$300 million which are partly financed by foreign capital as joint ventures, cooperative business operations or compensation trade, provided the city or county involved can provide the capital, foreign exchange, raw and supplementary materials and fuel by themselves. However, this limit on total investment does not apply to agricultural, fishery and livestock husbandry projects, small hydroelectric stations and small coal pits which are developed by using local resources as well as development projects involving the exploitation and processing of nonmetal deposits including sand, stone and earth. Cities and counties may also, in accordance with this limit on total investment, examine and approve applications submitted by overseas Chinese or foreign investors for setting up enterprises in our province with all the investment undertaken by them, provided the enterprises under application

conform to the orientation of our province's construction policies. More authority should be delegated to lower levels with regard to the use of foreign exchange retained and the granting of loans covered by the plan. Relevant departments of the provincial government will formulate specific measures for their implementation. While giving cities and counties more power in approving projects, it is necessary to strengthen leadership over economic work involving foreign countries, do a good job in achieving overall balance in macroeconomics, work out plans for various trade, and guide localities to lay emphasis on light, textile, electronics, food, fodder and machinery industries in importing technology. It is necessary to import capital, equipment as well as technology, software and management know-how, pay attention to the needs of domestic and foreign markets and introduce technologies of the late 1970's and early 1980's which are up to international standards. It is necessary to combine authority with responsibility to ensure better economic results.

/Achieve faster and better economic results in running special economic zones./ The close attention paid by the CPC Central Committee and State Council to the Xiamen special economic zone and the operation of basic facilities including the Xiamen airport and Dongdugang port provide a very good opportunity for the construction of the Xiamen special economic zone. We must have a good understanding of the current new situation brought about by opening up to the outside world and accelerate the construction of the Xiamen special economic zone with greater courage and insight to vitalize Fujian's economy. At present, while paying attention to the planning and legislative work of special economic zones, we must step up business negotiations with foreigners, expand the introduction of foreign capital, decide on a number of projects at an early date, actively expand internal relations and attract more relevant state departments and fraternal provinces to invest or cooperate in special economic zones. Efforts should be made to conduct feasibility studies for projects which have tentatively been adopted and carry them out one by one. Close attention should be paid to the construction of factory buildings and subsidiary projects in the Huli industrial areas as well as several other projects for tourist services. The entire province should support the construction of the Xiamen special economic zone, and the various provincial departments in particular should pave the way for the construction and development of special economic zones. Special economic zones should improve work systems, transform work styles and improve efficiency.

/Strengthen work concerning nationals living abroad and develop the economies of returned overseas Chinese communities./ The vast number of overseas Chinese have the good tradition of loving their motherland and native places; they represent an important force for promoting the four modernizations in our province. We should have a good understanding of the excellent situation brought about by opening up to the outside world and work hard to create a new situation in the work concerning nationals living abroad. Continued efforts should be made to implement the policy concerning private houses of nationals living abroad and concerning intellectuals among returned overseas Chinese and their relatives. Efforts should be made to investigate, on a case-by-case basis, the problem left over from the past with regard to houses of nationals

living abroad and have these problems properly handled in accordance with policy and regulations. It is necessary to respect and take better care of intellectuals among returned overseas Chinese and their relatives, have full confidence in them and arrange proper jobs for them. More favorable and protective measures should be adopted to encourage overseas Chinese and compatriots in Hong Kong and Macao to invest in our province's economic construction, and in the economic development of the hometowns of overseas Chinese, and we must adopt the policy of "trading market for technology" in handling those investment projects really involving advanced modern technology. We must support the operation of those enterprises run by returned overseas Chinese. We must provide good service in receiving overseas Chinese, compatriots from Hong Kong, Macao and Taiwan, and foreigners of Chinese origin, who return to visit their relatives or come for sightseeing, and we should carry out active propaganda work among the overseas Chinese and Chinese compatriots living abroad, and establish contacts to broaden the patriotic united front, and expedite the great cause of national reunification. Governments at all levels must attach great importance to, and strengthen, their leadership in overseas Chinese affairs, and all departments must work in close coordination, and give each other active support. Departments in charge of promoting economic relations and trade with foreign countries, in particular, must fully understand that development of foreign economic and technical relations is inseparable from overseas Chinese affairs, so they must broaden their operations by properly utilizing the channels provided by the overseas Chinese affairs departments. Overseas Chinese affairs departments at all levels must also give full scope to their role as a bridge for promoting foreign economic relations.

Foreign affairs must serve the objective of opening up to the outside world, and expediting economic construction. We must actively develop nongovernmental and friendly relations between our province, our cities and counties with their foreign counterparts. Those places, which have already established such ties, must exert great efforts in promoting economic, technical, and cultural relations, and work at importing the types of technical know-how, experts and capital we need.

/There should be a new breakthrough in tourism./ Tourism, which is closely related to promoting foreign economic relations, is also one of the important sources of foreign exchange. This year is the crucial year for the inauguration of Fujian's tourism industry, and we must step up the construction of traveling facilities in Fuzhou, Xiamen, Guangzhou, Zhangzhou, and Wuyi mountain. Construction of tourism projects in the Xiamen Special Zone, which are financed by foreign capital, must, in particular, be expedited. Construction projects within the tourist districts must be properly planned. To promote tourism, efforts must be made to improve our food, hotel, transportation, recreational, and customer services, so that our visitors will have a comfortable, economical, and satisfactory stay in Fujian.

/Strengthen control over foreign trade to achieve better economic performance in exports./ The State Council has decided that, beginning in 1984, centralized leadership over foreign trade will be reinstated, various branches of operations will be managed by related departments, business transactions with foreign

countries will be handled in a unified manner, and the cost of various types of export commodities will be uniformly set throughout the country. We must earnestly follow this decision. We must exercise caution in handling specific work, and do our best in minimizing possibilities, which might affect the procurement of foreign trade commodities. We must reassess, and sort out, our export commodities, and procure and export only those of good quality. Departments in charge of foreign trade and production must work in close coordination to improve the quality of export commodities, constantly better their adaptability and competitive capabilities, strive to develop new markets, and work hard to accomplish this year's foreign exchange earning plan, and plan to reduce losses. We must energetically develop the on-order processing and assemblage services, expand employment, increase foreign exchange revenue, and take active steps to import the necessary equipment and goods for the domestic market.

There are vast prospects in foreign contracts, and in the export of labor services. We must continue to emancipate our mind, broaden the scope of operations, explore new areas of cooperation, simplify our operational procedures, and push our work forward actively and steadily.

3. Concentration of Financial Resources

In recent years, one of the prominent problems Fujian Province has faced is decentralization of funds. The percentage of government revenue in the people's gross income has steadily decreased, and budget deficits have kept rising. If this situation is not promptly reversed, production and construction in various fields will be seriously affected. In order to gradually improve our financial situation, this year, we plan to solve this problem by the following three methods:

1) Make all-out efforts to improve economic results in production, construction, and other fields, achieve a proportionate increase in tax, profits, and production, and strive for a proportionate growth in government revenue. All sectors, localities, and enterprises are urged to bear in mind the importance of improving economic results. No one should talk about input without regarding output, and no one will be granted investments from the state without making contributions. We must ensure that speed and benefit are compatible, and, currently, we must pay attention to the work of turning deficits into profits, and of the development of new products. All government departments should properly carry out this job with a strong sense of responsibility, and a serious and conscientious attitude. They should not only pay attention to eliminating deficits, but should also make an effort to increase profits, not only concentrate their efforts in industry, but also in the commercial, grain production, supply and marketing, construction, and other fields. Last year, industrial, transportation, financial, trade, construction, and other sectors did a great deal of work in turning deficits into profits, and achieved impressive results. The small nitrogenous fertilizer industry in the province, which had suffered heavy losses, successfully turned deficits into profits within a year, by making intensive efforts to deal with its weakest links, and taking extensive measures to cut energy consumption. A

number of advanced units have also emerged from the light textile and machine building industries, which are comparatively more seriously affected by the market situation. These units have turned deficits into profits by extensively strengthening their quality control management, and devoting great efforts to the development of new products. All this indicates that much work could still be done to turn deficits into profits, and to improve economic results. All localities and sectors are urged to seriously sum up, and promote, the advanced units' experience, and seed up the process of turning deficits into profits to achieve even better results. The provincial government this year will continue to carry out these two decisions: 1) Continue to implement the system of charging someone with the responsibility of turning deficits into profits, reward those who have done their job well, and punish those who have committed mistakes; 2) draw up, and carry out, economic policies which would help speed up the process of turning deficits into profits, and "apply pressure on, stress policies to, and provide a way out for" those enterprises operating at a loss.

2) Put the scale of capital construction under strict control, and strengthen the construction of key projects. This is an important issue having something to do with the economic results of society as a whole, and we must treat it by taking the overall situation into consideration, from a long-term point of view. Capital construction has to be maintained at the necessary level, which must accommodate the province's situation and should not exceed the limits of financial support and material supply, otherwise it will suffer setbacks. Fujian Province's capital construction investments have been set at 810 million yuan for 1984, including 610 million yuan for local projects. This represents a decrease of 21.9 percent over last year's readjusted plan, and must not be exceeded. We should apply the "four priorities" to the 22 major construction projects throughout the province: they are the priorities in arranging funds, survey and design, construction materials, and construction work. We should also mobilize, and organize, efforts in all fields to support, and ensure completion of, the plans. At the same time, we should pay attention to the construction of local infrastructures, and the development of small hydropower stations in rural areas to speed up the electrification drive in the province.

3) Vigorously increase revenue, economize on expenditure, and strive to strike a balance between revenue and expenditure. We should continue to strengthen the management and collection of tax revenue, support the tax departments, and urge them to strictly carry out the state's laws and decrees on tax and revenue, stop tax fraud and evasion, promptly repay arrears, systematically perfect local tax systems, set up rural financial management centers, properly keep, and use, all types of funds, strictly control the increase in consumers' funds, continue to properly carry out financial checkups, enhance financial discipline, and keep better control over non-projected funds. In order to speed up construction of key projects, the provincial financial departments plan to take measures to concentrate funds, mainly nonprojected funds of the departments and enterprises concerned. We hope all prefectures and sectors will take appropriate measures to support this. Currently, quite a few counties still rely on the financial subsidies of governments at higher level. The government departments in these counties should set their sights on production development, seek to create, and accumulate wealth, and quickly strive to the label "subsidized county."

4. Scientific and Technological Development Must Be Expedited

Scientific and technological development is proceeding by leaps and bounds in today's world, and we are facing the challenge of a new "technological revolution," about which we must not be totally insensitive. Being a "poor province," Fujian must resort to resourcefulness in accomplishing its objectives. Governments at all levels must heighten their sense of urgency, include scientific and technological affairs in their agenda, and keep constant track of the world's latest scientific, technological, and economic development. We must earnestly carry out the strategic principle that "economic construction must depend on science and technology, and science and technology must be geared to serve economic construction," step up study and draw up a realistic scientific and technological development plan for Fujian, decide on major technical projects to be tackled, with emphasis on development and application of production technology, and give full scope to the roles of science and technology in developing and preserving Fujian's mountain and maritime resources, in breeding good fowl species and fine seed strains, in improving economic performance, and in absorbing and digesting imported technology. Currently, we must regard it as an important task to import, develop, popularize, and apply microcomputer technology, and strive to make it a major industry in our province. This technology must be popularized and applied by all provincial economic departments, scientific research units, universities and colleges, major industrial enterprises, and major middle schools in Fujian as soon as possible. Attention must also be paid to the study of social sciences, so that we will be more capable of making macroeconomic policy decisions. We must reform our scientific research system, explore new forms and fresh ways of integrating scientific study with production, study, and try out, a coordinated management system for our scientific and technological development, so that dislocation in our research, development, production, popularization and application of scientific and technological know-how can be eliminated, and so that scientific and technological research can be turned into productivity as quickly as possible. The roles of universities and colleges must be given full scope in scientific and technological development, and they must be encouraged to sign all forms of contract with various production units for technical cooperation. The power of deciding on research projects must be delegated to various departments concerned, and pilot projects should be carried out in hiring qualified personnel to engage in various research projects. We must reinforce the computer center, and step up the establishment of our economic information network, scientific and technological information retrieving terminals, software development center, and social science information center. We must expedite the steady development of computer technology by means of subsidies and favored treatment.

To expedite scientific and technological development, we must attach great importance to, and strengthen, development of intellectual resources. We must earnestly carry out the policies on intellectuals, give full scope to the roles of those people who are specialists in social or natural sciences, and help them solve their work and livelihood problems. We must pay particular attention to solving the problems of middle-aged intellectuals. We must do a good job in promoting exchanges of qualified personnel, and take active steps to hire qualified personnel from other provinces and from abroad. Governments at all levels must continue to implement the "Decision on Improving Education," adopted

by the 5th Plenary Meeting of the Third Provincial Party Committee, make our educational cause a success, speed up the training of needed personnel, and upgrade the people's scientific and educational level. We must also expedite the development of higher education, so that it can serve our economic construction even better. The full-time institutes and colleges must tap their potential, expand their training capacity, readjust their specialized training programs, intensify the training of urgently needed personnel, and step up other major training programs. We must freely expedite the development of all types of higher education for adults, by means of sponsoring televised college curricula, to encourage young people to become useful personnel through self-study. We must continue to restructure our secondary education, make overall plans for the development of regular secondary education and secondary vocational and technical education, and sponsor elective courses on modern science and technology at regular middle schools, so that the students can be prepared for employment after graduation. In a way appropriate to local conditions, we must also adopt effective measures to accomplish the historic task of popularizing primary education, pay attention to kindergarten education, and improve our child care services. We must continue to attach importance to wiping out illiteracy, and actively promote general, scientific and technical education among the workers and peasants. Schools at all levels must fully implement the party's educational policies, strive to improve the quality of education, and pay attention to the students' ethical, intellectual, and physical development. We must respect, cherish, and care for our teachers, rely on them to improve our schools, and assist them in improving their teaching. We must mobilize the strength of all social quarters, and pool together the funds contributed by the state, and by various localities, departments, communes, brigades, and the masses to develop all forms of education. We must encourage and support overseas Chinese and compatriots in Hong Kong, Macao and Taiwan to build schools in their hometowns.

In public health undertakings, it is necessary first to implement the policy of prevention. We must promote maternity and child care, labor sanitation and disease control and treatment, vigorously carry out the patriotic health campaign centered on the elimination of pests and diseases, popularize knowledge in disease prevention and treatment, and strengthen the construction of grassroots health institutions in cities and rural areas. In fine arts, journalism, publishing, radio and television, and other cultural undertakings, it is necessary to adhere to the socialist orientation, achieve further progress on the basis of success in improving quality and performance, and offer still richer and better nourishment for the mind to the people to enable them to enjoy a cultural life that is varied, noble, healthy, and inspiring. Vigorous efforts must be made to promote mass sports activities, build the ranks of sportsmen specialized in various sports, train new talented individuals, and achieve fresh results. Construction of cultural and sports centers should be incorporated in urban construction plans.

5. Delegate Power to Lower Levels

Restructuring of the economic system is one important guarantee for realizing the four modernizations. The scope of restructuring is very wide and the

problems to be solved are many. One key problem facing us now is the delegation of power to lower levels. Authorities from the provincial level down to the city and county level should all actively and systematically delegate power concerning economic management to lower levels in order to solve the problem of vitality and motive force of enterprises. From now on, every enterprise, at whatever level it may be, should become part of the unified state plan and be able to operate by itself. We must get rid of the illness of "sharing food from the same pot" and "egalitarianism" such as existed in the past due to overconcentration of power. We must further arouse the initiative of the masses and increase economic results.

At present, there is a very striking contradiction of unbalanced incomes between different trades and enterprises in the cities. Before the price system is restructured, this should be adjusted by using taxation as a lever in solving problems in the relations between the state and enterprises. In perfecting the taxation system, the next step to be taken in practicing the system of taxation instead of delivering profits to the state is to completely change the system of delivering profits to the state. The enterprises, after paying tax according to regulations, will thus be able to compete with one another under basically equal conditions, and this will in turn improve the quality of the enterprises and increase their economic results. This is a matter of great importance affecting the whole situation. It must be carried out with leadership and in a planned and systematic manner. Reform in economic work with foreign countries is all the more necessary and should be carried out under state guidance, ahead of other reforms, and aimed at expanding the powers of coastal cities and countries. Enterprises operating by means of joint investments or cooperative production should be permitted to break with traditional methods of management and given greater flexibility and more decision-making powers in the areas of production, operations, personnel, labor, and wages. Designing and construction jobs involving capital construction projects should be bid for instead of being assigned by administrative means in order to encourage competition among contractors. Units for which the construction is done should be permitted to select the best designers and contractors by themselves. In the building trade, it is permissible to adopt either the piecework wage system based on unified work norms set by the state or the system of contracted responsibilities for individual projects.

In rural areas, the most important task in restructuring is to stabilize and perfect the agricultural production responsibility system and to extend the lease period of land contracted out on the basis of output. At the same time, we must speed up the restructuring of the rural commodity circulation system, making sure that this will proceed at the same speed as the restructuring of the entire rural economic system. Supply and marketing cooperatives at the grassroots levels should, on the basis of success in building themselves in the "three areas" [san xing 0005 1840], really become cooperative businesses collectively owned by the peasant masses. Compatible restructuring should be done with regard to the management system concerning personnel, labor, price, and finance matters. Cadres should be selected in a democratic way and do their work well both at higher or lower positions. The main source for workers and

staff members should be the rural areas and they should be able to join or leave cooperatives. Peasants can become shareholders if they wish. There should be no restrictions on the scope of operations and the kinds of businesses handled by cooperatives. They should be allowed a certain flexibility as far as prices are concerned. State commercial enterprises should develop commodity circulation links between industry and commerce, between urban and rural areas, and between wholesale and retail dealers, pay attention to restructuring commercial wholesale links in selected localities on a trial basis and solve problems faced in the production, marketing, and supply of vegetables and nonstaple foods for cities. Trade centers, wholesale markets, and trade depots of farm and sideline produce should be established in a planned way to widen the channels for such products to reach the cities.

Reform of the labor and wage system involves many departments. We may carry out some experiments in a planned way before the central authorities make unified arrangements in this regard. The labor contract system should be vigorously practiced in state enterprises in order to solve longstanding problems in the labor system, such as the unified employment and assignment of personnel who, once hired, cannot be dismissed or transferred from one unit to another. A pension and insurance system for retired workers and staff members should be instituted step by step in state enterprises and collective economic organizations in cities and towns. And pensions for workers and staff members retired from state enterprises should be borne and regulated in a balanced way. A new bonus system should be instituted in enterprises. The total amount of wages and bonuses should be controlled in a planned way, but not rigidly. There should be limit to the amount of bonuses for workers and staff members that should be linked to economic results. Under no circumstances should "maximum" bonuses be issued to every worker in an egalitarian way, without consideration of economic results.

It is necessary to give full play to the role of central cities according to the requirements of socialized mass production and the internal relationships of the developing economy. A good job should be done in the experimentation in administering counties by cities and in the planning for developing the economic zone in southern Fujian.

Build Spiritual Civilization Extensively and Persistently

It is a common task for all fronts and a vital undertaking for the people in the province to build a high level of socialist spiritual civilization while working for a high level of material civilization. On the basis of the experiences we have summed up, we should make unremitting efforts to build a spiritual civilization so that it will become a tremendous social force to urge people to work hard and make progress.

1. Extensively Build Various Civilized Units in Urban and Rural Areas To Promote the Development of the Excellent Situation

All cities in the province should continue to learn from and catch up with Sanming City in order to build themselves into civilized cities. Efforts should be made to build a material and a spiritual civilization at the same

time so that economics, politics and culture will promote one another. In this way, problems in these respects will be tackled in a comprehensive way. Activities in promoting the "five stresses, four beauties and three ardent loves" and the "all-people civility and courtesy month" should be linked with the target and planning for the building of civilized cities. In carrying out such activities, we should focus our attention on the grassroots levels, for this will make it possible to extensively carry out these activities with distinctive local features. It is necessary to fully arouse the enthusiasm of cadres, workers, staff members, and students to build first a large number of civilized neighborhoods, stores, factories, and schools to provide the basis for building civilized cities. The masses in the countryside of the province should be extensively mobilized to build civilized, democratic, and prosperous socialist towns and villages of a new type. Villagers should draw up written pledges with a view to improving popular habits and customs. Efforts should be made to solve problems that the masses urgently want to be solved and can be solved, such as poor transport facilities, drinking water shortages, poor environmental sanitation, disrupted public order, and poor cultural life. All such problems should be effectively solved so that activities in building civilized towns and villages will from the very beginning comply with the wishes of the people and receive their support. In promoting cultural development and improving the appearance of villages, all localities should do what they are capable of doing and should do so with whatever is available. They should promote cultural development and improve the appearance of villages step by step without going beyond the limit of the peasants' financial capabilities. It is necessary to promote and popularize the fine experiences of army men and people and of workers and peasants in making concerted efforts to build civilized towns and villages. Effective measures should be taken to prevent people from paying lip service to building civilized towns and villages and practicing formalism in this regard and to overcome such phenomena, if any.

It is necessary to practice family planning and control population growth as a major task. A relatively large number of young people have reached marriageable age in recent years. Birth control measures should be carried out among the 1 million couples of child-bearing age this year. This is a very arduous task involving a lot of work. Governments at various levels and the relevant departments must not relax their efforts but continue to exert themselves to do this work well in order to continuously bring the natural population growth rate down. It is necessary to extensively publicize the party's policy on family planning, to conduct thoroughgoing and painstaking ideological work, and to disseminate knowledge concerning late marriage, birth control, eugenics, and bringing up children in the best possible way. It is essential to improve our work style and methods, to link family planning with the vital interests of the masses, and to gradually regularize and institutionalize family planning. Vigorous efforts should be made to publicize advanced deeds, popularize advanced experiences, and make family planning recognized as an honor by public opinion.

2. Further Strengthen Ideological and Political Work, Strengthen the Construction of Spiritual Civilization

Ideological construction is an important aspect in the building of socialist spiritual civilization. It determines its characteristics and orientation. We must fully understand the powerful role of ideological and political work, and overcome weakness and laxity in leadership. The central task of such work is to conduct ideological education and patriotism, collectivism, socialism, and communism among the people. It is necessary to widely launch reading activities for the development of China, the emulation drive among staff members and workers, and whip up a high tide in making contributions to celebrate the 35th anniversary of the founding of the Republic.

In rural areas, it is necessary to continually deepen and broaden ideological education in the "four basic principles, the interests of the state, the collective and the individual, and the two oppositions," and the publicity of the party's specific and general policies. It is necessary to heighten peasants' political awareness of cherishing love for the country and the collective, and deepen their understanding of the party's specific and general policies, to further develop their enthusiasm in working hard to become well off, developing commodity production and making greater contributions to the country. It is necessary to curb the unhealthy trends and evil practices of felling forests at will, building houses on arable land, mercenary marriage, feudalism and superstition, gambling, extravagance, and waste. It is necessary to punish those who break the law by maltreating women, and drowning baby girls. It is necessary to pay great attention to young people's education and their healthy growth, both in rural and urban areas. It is necessary to boycott the corrosive influence of capitalist ideas. It is essential to continue banning obscene articles, and punish those who violate the law and commit crimes in the ideological and cultural spheres.

3. Strengthen the Socialist Legal System, Make Public Order and the General Mood of Society Take a Fundamental Turn for the Better

In various places in Fujian last year, the party Central Committee's directive was implemented to punish "severely and speedily" a number of serious criminals, according to law. As a result, public order, and the general mood of society, have taken a turn for the better. The masses praise this. However, we are facing a long-term struggle. In present society, some criminals still go scot-free. Active criminal cases, pernicious cases and cases of criminals using violence to retaliate have also often occurred. We must firmly implement the party Central Committee's decision, seriously sum up experience of struggle, and follow up our victory with a hot pursuit, to thoroughly exterminate evil.

Taking strong measures against criminal activities in the economic sphere is also a long-term struggle task. We must not slacken our efforts in striking blows at economic crimes, because we are busy dealing with criminal offences. It is necessary to continually and sternly clamp down on smuggling, peddling smuggled goods, profiteering, swindling, corruption, taking bribes, extortion, and other economic crimes. It is necessary to grasp key and important cases,

and severely and speedily punish criminals according to law. It is necessary to attach great importance to preventive measures, strengthen rules and regulations, improve the management of money and property, and close loopholes, to give criminals no opportunity. It is necessary to draw clear demarcation lines in applying a policy, and protect the enthusiasm of cadres and masses for enlivening the economy, developing production, and working hard to become well off.

While striking blows at various criminals activities, we must firmly grasp the all-round improvement of public order in all localities. It is necessary to use various publicity methods to deepen the understanding of socialist democracy and the socialist legal system, and heighten the masses' awareness of the legal system, and their awareness of struggling against criminal elements. It is necessary to consolidate and strengthen public security and mediating organizations at the grassroots level, and implement the security responsibility system. It is necessary to rely on society to strengthen the education and redemption of delinquent juveniles. It is necessary to further strengthen the management and education of those working on reform-through-labor farms, those who are being reeducated through labor, and criminals in prison, so that more criminals will forsake evil for good, and begin their life anew. Governments at all levels must also pay great attention to economic legislation, and strengthen, through struggle, the training of political, judicial, and public security workers.

Change Leading Cadres' Work Style, Raise Work Efficiency

Since the streamlining of administrative organizations last year, governments at all levels have attached great importance to the building of leading bodies. As a result, a new atmosphere has appeared. However, work methods and style have not changed much. Bureaucracy, and the unhealthy trends of abusing power to seek personal gain, still exist in many departments and among many cadres. We must follow the decision adopted by the 2d Plenary Session of the 12th CPC Central Committee on party rectification, and start with the provincial government itself. We must conscientiously carry out party rectification among government organizations, the guidelines of correcting errors, while rectifying, and before rectifying, the party, and seriously change our work style to create a new situation in government work.

Government leaders at various levels should devote their main energies to making studies and investigations at the grassroots level. Only by so doing will they be able to seek truth from facts, proceed from reality, and effectively carry out the party's line, principles and policies; only by so doing will they be able to change their general method of leadership, characterized by talking a lot but doing little, or issuing many general calls but seldom checking on the implementation of the party's line, principles, and policies; and only by so doing will they be able to do their work vigorously and effectively. Leaders at various levels should free themselves from "numerous documents and meetings," and see to it that every year they have enough time to study new situations, solve new problems, and sum up new experiences in basic units, along with the cadres and masses there. In any given period, they should solve one or

two problems of the utmost concern to the masses, and about which the masses have a lot of complaints. This will make it possible for the masses to see the actual results of government work, which will strengthen the ties between the masses of people and the government, and increase the prestige of the government among them. It should be stressed here that governments at various levels must pay close attention to implementing the party's various policies, make thorough studies and investigations, supervise and inspect the work of their subordinate units, handle affairs according to law, and deal sternly with those who refuse to implement policies, laws and decrees, or refuse to do their work according to such policies, laws and decrees. Government at various levels should also pay close attention to planning, and step up their efforts to draw up the "Seventh 5-Year Plan," and plans for various trades and professions. It is necessary to set up economic policymaking and advisory bodies, which should comprehensively, systematically and scientifically study, investigate and analyze problems of overall strategic importance in their departments or areas, in order to provide a basis for policymaking by the government.

Government departments at various levels should institute a system of personal responsibility, and strive to improve their efficiency and work quality. They must effectively change the bureaucratic practices of irresponsibility, disputes over trifles, and trying to shift responsibility to others. It is necessary to give full play to the role of all departments, and to support them in boldly blazing new trails, and doing their work vigorously. The system of personal responsibility should clearly define the functions, responsibilities and powers of various personnel in a unit. At the same time, there should be a feasible evaluation system, and a strict system of rewards and punishments. In addition, it is necessary to improve various administrative laws and regulations, and to institute a system of administrative supervision, including supervision by the masses of people and public opinion. Continuing efforts should be made to do a good job in running various types of cadre schools, and to train cadres in rotation, by stages and in groups, in order to strengthen the building of the cadre contingent, and to raise cadres' quality. Attention should be paid to selecting, for leading positions at various levels, young and middle-aged cadres, who are honest and upright ideologically and in work style, professionally competent, full of enterprising spirit, bold and resolute in their work, and meeting the requirements of the four modernizations. Attention should also be paid to training women and minority cadres.

Government functionaries at various levels should firmly establish the concept of serving the people wholeheartedly, exemplarily abide by the state laws and decrees, and resolutely oppose and resist the unhealthy trend of taking advantage of one's powers to seek personal gain. They should attach importance to the role of CPPCC committees, cooperate with various democratic parties, and regularly make reports on their work to the Standing Committees of people's congresses at their corresponding levels. They should carry forward the fine style of maintaining close ties with the masses, persistently follow the mass line, strengthen their ties with trade unions, CYL organizations, women's federations, federations of returned overseas Chinese, associations for science and technology, federations of supply and marketing cooperatives, federations

of literary and art circles, and other masses organizations, and pay attention to the letters people send in, and the complaints they make when they call. They should have a sense of honor and responsibility in doing government work, be devoted to their duties, and be honest in performing them. They should resolutely struggle against all violations of the law and discipline, and all acts of abusing one's power to seek personal gain. Leading government cadres at various levels should play an exemplary role in this regard, in order to promote the improvement of government work style with their exemplary conduct.

Deputies:

It is our province's unshirkable [duty] to strengthen its work on Taiwan, and to promote the great cause of reunifying the motherland. We should conscientiously publicize and follow the way and policy for the peaceful reunification of the motherland, as once again elaborated by Chairman Deng Yingchao and Premier Zhao Ziyang. We should further strengthen our ties with Taiwan compatriots, their dependents and other relevant personages, implement the policy towards Taiwan compatriots and their dependents, and give full play to their role as a link in our work on Taiwan and their positive role in the four modernizations. On behalf of the provincial people's government, I wish to take this opportunity to once again invite personages of various circles in Taiwan to visit their relatives and friends in Fujian, do some sightseeing, conduct cultural and academic exchanges, or invest in factories here, in order to enhance our mutual understanding and kindred feelings. We shall warmly receive you, and provide you with various conveniences.

Army-people and army-government unity is our guarantee to win all victories. We shall never forget the tremendous contributions the Chinese PLA units stationed in Fujian have made to the province's socialist construction. Local governments at various levels should further carry forward the glorious traditions of supporting the army and giving preferential treatment to the families of armymen and martyrs, conscientiously protect the reputation of the army, vigorously support its revolutionization, modernization and regularization, and earnestly and sincerely assist army units in solving problems of combat readiness, training, the performance of their duty, and daily life. They should continue to do a good job in the placement of cadres retired from the army, and those transferred to civilian work, as well as demobilized soldiers; they should do a good job in giving special care to disabled servicemen and the families of martyrs and armymen; and they should carry out extensive activities in building spiritual civilization through the concerted efforts of armymen and people, and further develop new-type army-government and army-people relations. Governments at various levels should pay attention to the building of the people's armed forces, and continue to do militia work well.

The current situation in our province is very good, and our future is very bright. We must unite as one, strengthen our spirit, work hard, and strive to achieve successes in all our undertakings, and to undertake the four modernizations faster and better in our province.

CONSTRUCTION

BRIEFS

TANGGU WATER DIVERSION PROJECT--Tianjin, 26 Apr (XINHUA)--A project to divert water from the Luanhe River to Tanggu, a port area in Tianjin, must be completed by the end of this year, Mayor Li Ruihuan said earlier this week. The project, an extension of a water diversion system which went into operation last September, will run 45 kilometers from a reservoir in Baodi County in Tianjin. It will cross three rivers and 30 canals, and call for the construction of two pumping stations. There are over 100 large factories around Tanggu. The diversion system now supplies the Tianjin Municipality with one billion tons of water a year. [Text] [OW261550 Beijing XINHUA in English 1507 GMT 26 Apr 84 OW]

MODERN HOTEL IN XIZANG--Lhasa, 28 Apr (XINHUA)--Work began here today on Tibet's first modern hotel for overseas tourists. The 204-bed hotel, located in Norbu Lingka Park six kilometers west of the center of Lhasa, will have five interconnected two- and three-storey buildings with golden glazed tile eaves. Facilities will include closed-circuit television and heating equipment. There will be two restaurants serving Chinese and Western food, a bar, a shop and a bank. An artificial lake, rockeries, bridges and pavilions will be built in the courtyard of the hotel with Tibetan architectural designs. Some hotel staff and cooks have already been sent to other parts of China for training. [Text] [OW290618 Beijing XINHUA in English 1420 GMT 28 Apr 84]

CSO: 4020/115

DOMESTIC TRADE

OVERVIEW OF CHINA'S DOMESTIC TRADE, JANUARY TO SEPTEMBER 1983

Beijing ZHONGGUO JINGJI JIKAN [CHINA'S ECONOMIC QUARTERLY] in Chinese No 4,
15 Dec 83 pp 29-30

[Article by Jin Lu [2516 7120]: "Market Overview, January to September, 1983"]

[Text] Commodity purchases by state commercial organs and supply and marketing cooperatives amounted to a total of 191.8 billion yuan from January to September of this year, a 6 percent increase over the corresponding period of 1982. The volume of retail sales for social commodities was 198.96 billion yuan, a 10.1 percent increase over the corresponding period of 1982. The pace of these increases was more rapid than that of the previous 2 years. Our country's domestic markets continue to flourish, prosper, and be brisk. However, the rapid increase in purchasing power exceeds that of the supply of goods, and supplying this winter's and next spring's markets will be all the more difficult.

A. Supplies of Consumer Goods Increasingly Ample

1. Purchase and sale of food products are brisk. Following last year's great bumper harvest, our country had another such year in agriculture, creating favorable conditions for market planning, especially planning well for food product supplies. From January to September of this year, agricultural staple foodstuff purchases increased considerably over the corresponding 1982 period, for grain, pork, fresh eggs, etc. The amount of grain purchased increased 30.6 percent. There were also considerable increases in industrially produced and processed foodstuff, in their variety and in amounts purchased. Food product sales jumped considerably, thanks to guaranteed supplies. From January to September of this year, sales for 11 staple food products increased by 8.2 percent over the corresponding 1982 period. Commercial departments' sales of grain and oil increased 8.2 percent; pork, 6.3 percent; fresh eggs, 7.7 percent; and beef, mutton, poultry, cigarettes, alcohol and others exceeded 10 percent, with a 22 percent increase for poultry. The sales volume for some reprocessed food stuffs was even greater, such as a 46 percent increase for milk powder and 39 percent for canned goods. Markets were also good for baby food, nutritious and enriched food, as well as various prepared food, beverages and semi-finished food.

2. The supply of daily necessities has been further alleviated. In the past some vital daily necessities were often out of stock and off the shelf, a regular supply could not be guaranteed. This situation has begun to be corrected

since the second half of 1981. Purchase of these goods has increased steadily, supplies have been basically sufficient and sales have risen smoothly and steadily. From January to September of this year, commercial departments' sales of matches increased 11.6 percent over the corresponding 1982 period; soap, 12.5 percent; laundry detergent powders, 21 percent; toothpaste, 9.6 percent; thermos bottles, 9.8 percent; light bulbs, 18.5 percent; and iron works, 6.3 percent.

3. The designs and varieties of clothing have increased and quantities are plentiful. Once the masses basically have sufficient clothing and shelter, their demands for improved quality, designs and patterns in textiles and clothing impel a considerable change in the consumption structure. One change is that in the past year, the proportion of chemical fiber and chemical fiber cotton blend textiles has swiftly expanded. Textile price adjustments in January of this year promoted further development of textile structures in this direction. According to Ministry of Commerce statistics, from January to September of this year, sales for polyester blend cloth at reduced prices increased 55 percent and sales for pure cotton cloth at raised prices decreased 22 percent below the corresponding 1982 period. Last year it was chemical fiber cloth and chemical fiber cotton blends that were greatly overstocked. This year it is pure cotton. Another change in the sales structure for clothing goods is that the number of people buying ready-made clothes has noticeably increased. Excluding the drop in sales of pure cotton clothing, there were increases in the sale of cotton and chemical fiber blend clothing by 14.5 percent, in chemical fiber clothing by 23.4 percent, and in clothing of wool, silk and other materials by 13.2 percent.

B. Household Appliance Vigorous Sales Still Lively, Wrist Watch and Sewing Machine Sales Sluggish

From January to September, household appliances purchased through commercial departments increased as follows: TV's, 42 percent over the corresponding 1982 period, with color sets up by over 300 percent; tape recorders, 110 percent; ceiling fans, 50 percent; pedestal fans, 35 percent; and electric KWH meters, 32 percent. Refrigerators, washing machines and others also increased considerably. Despite such increases in supplies of these goods, many famous brands are regularly out of stock, mainly because the popular demand for them has rapidly increased. From January to September of this year, even with insufficient supplies, commercial departments' TV sales still increased 13.5 percent over the corresponding 1982 period, with color sets up by nearly 200 percent; tape recorders, nearly 100 percent; and heavy duty fans, 28 percent. The volume of sales for washing machines and refrigerators also considerably increased. At the same time however, as for the old "big three desirables," except for continued considerable bicycle sales volumes, wrist watch sales only increased 4.4 percent and sewing machine sales volumes on the contrary fell 16.5 percent below the corresponding 1982 period.

C. Sales in Every Channel Show Overall Increases, State Business Firms Still in the Lead

From January to September, the volume of retail sales for state-owned units increased 5.3 percent over the corresponding 1982 period; for collectively-owned

units, 19.2 percent; and for individual households, 130 percent. Due to different increases in each category of retail sales volume, there have also been changes in the composition of retail sales. Changes in the proportions over the corresponding 1982 period were, for individual households, a rise to 5 percent from 2.4 percent; for collectively-owned units, a rise to 16.3 percent from 15.1 percent; and state-owned units fell to 78.7 percent from 82.5 percent. The social commodity retail sales volume for commercial departments fell to 60.1 percent from 65 percent in the corresponding 1982 period. From January to August, the wholesale commodity total for collective firms from commercial departments increased 16.9 percent over last year and that for individual firms increased 180 percent.

D. Two Problems Demanding Prompt Solutions

1. Increases in commodity supplies cannot keep pace with increases in purchasing power. Swift and extreme increases in society's purchasing power are due to many units' irresponsible awarding of bonuses and gifts as well as subsidies and allowances in the name of all sorts of things, lax social group purchasing power controls, and receipt of wage increases this year by some cadres and professions that began in October of last year. From January to September of this year, social commodity purchasing power increased 14.5 percent over the corresponding 1982 period but supplies of retail commodities only rose 8.3 percent. The disparity is enlarging. At the end of September, the masses' cash on hand and savings had increased 27.7 percent over last year but domestic commodity reserves only increased 1.8 percent in the same period. Markets are stable and minds at ease due to the appearance of this disequilibrium at a time when the masses' consumer goods were guaranteed, when the contemporary agricultural production of our country was relatively good and savings interest rates by banks were quite high, absorbing a corresponding part of the purchasing power. It definitely cannot be treated lightly because of these things, however. We must on the one hand take resolute measures to curb disguised price rises, reckless bonus giving and other erroneous tendencies, and on the other, strive to increase production of goods to satisfy sales needs and thoroughly plan for the busy market seasons of this winter and next spring.

2. Relaxation of purchasing and selling policies serves positive functions in promoting the development of urban and rural commodity economies, enlivening markets and bringing convenience to the people's lives; but some problems have arisen owing to the lack of a complementary set of administrative measures. Many individual small retailers and even some collective business units and official enterprises have disturbed the state's plan for buying and selling, created confusion in prices and adversely affected the normal supply of markets by going straight to the place of production to make high-priced purchases of agricultural by-products designated for allocated purchase under national plans. Many individual small retailers have seriously evaded taxation. At present, departments of commerce, administration and market management everywhere are continuing to investigate and study, to adopt measures and to strengthen management of the above problems.

FOREIGN TRADE

FOREIGN TRADE, DEVELOPMENT STRATEGY DISCUSSED

Beijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 4, 27 Apr 83 pp 27-32, 53

[Article by Yao Zengyin [1202 2582 5593]: "Foreign Trade and Development Strategy"]

[Text] Opening up to the outside world and expanding foreign economic and trade activities and technological exchanges are China's unswerving strategic principles. In order to understand the great strategic significance of foreign economic and trade activities, we will discuss the following three issues:

I. Two Theories and Two Development Strategies

With regard to the issue of the relationship between foreign trade and economic development, there are two general theories. The first school contends that based on historical experience, foreign trade can make a great contribution to economic development. Adam Smith believed that foreign trade can help increase labor productivity, export surplus domestic products to foreign countries, promote production and increase employment. John Mill believed that international trade can play a role in the industrial revolution of a country where natural resources are not developed. Marshall believed that economic development is within the realm of the study of international trade. This has made the role of foreign trade more significant. Robertson and Nurkse (?) even believed that foreign trade is the engine of growth in economic development. The economic theories of these classical and neoclassical schools are superior in certain ways to Ricardo's theory of comparative costs. They attached great importance to the relationship between foreign trade and economic development and established a close link between them, while Ricardo was concerned only with the international division of labor and the static interests of foreign trade (the profitability of foreign trade). He showed no concern for economic development (or, shall we say, he was pessimistic about economic development).

After World War II, some developing countries and regions, based on these theories, adopted export-oriented development strategies and scored relatively great achievements.

The theory of the second school is the theory of some leftist economists in the Third World. Based on the historical experience of the Third World countries, they contend that foreign trade can cause adverse effects in the national economies of these countries. They believe the development of foreign trade

can cause the national economy to become a dual economy consisting of two sectors--the export sector and the rest of the national economy. The export sector will become an enclave in the national economy. It only benefits foreign capital. It plays no role in the promotion of the whole national economy. Another adverse effect, they believe, is that when trading with the developed countries, Third World countries can be exploited by exchanges of unequal value. They maintain that an import replacement strategy should be adopted to develop the national economy. So-called import replacement means the gradual development of domestic production to replace imported manufactured goods, especially daily industrial consumer goods. In the late 1950's and the 1960's, some Third World countries, especially some Latin American countries, adopted this very kind of development strategy.

The authors of the classics of Marxism and Leninism also attached great importance to the role of foreign trade in accelerating economic development. Marx held that the great commercial revolution of the 16th and 17th centuries constituted a major factor in accelerating the transition from the feudal mode of production to the capitalist mode of production. He said: "The sudden expansion of trade and the formation of the new world market had a very significant impact on the decline of the old mode of production and the sudden rise of the capitalist mode of production." The trade and the great commercial revolution Marx mentioned here refer to foreign trade and the vigorous growth of foreign trade. In history, before the first great industrial revolution, there was a great commercial revolution. The great commercial revolution was the historical forerunner of the great industrial revolution.

The second great commercial revolution occurred in the late 19th century. It markedly accelerated the development of the new and old industrial departments in Europe and North America. The second commercial revolution and the second industrial revolution were carried out simultaneously.

Marx said that in international trade both parties can benefit from foreign trade by transferring existing value. He also said that judged by the use value, "both parties apparently can benefit from the exchange, because they both give up commodities that have no use value to themselves and acquire commodities that they need to use." However, this is not the only benefit of foreign trade. Marx held that foreign trade can "base production on a large scale." In today's terminology, this means that judged from the microeconomy, foreign trade can enable plants and enterprises to benefit from economies of scale and increase their production and income. Judged from the macroeconomy, foreign trade can create the effect of a multiplier, become the engine of growth in economic development, increase employment and accelerate the development of export departments and other pertinent departments.

China is now vigorously developing economic and trade relations with foreign countries. China's foreign trade is developing at a speed faster than the growth of industrial and agricultural production. It has played a big role in the promotion of the national economy. In the future, along with the development of foreign trade, this role of promotion will grow even bigger. Can this situation be considered a "great commercial revolution" under the condition of socialism? Is it possible to bring about a rapid growth of the socialist economy by carrying out this "great commercial revolution," as Marx said when

he described the great commercial revolution in the 16th and 17th centuries? Of course, in addition to the "great commercial revolution" China is carrying out revolutions in the fields of industry, communications and transportation, agriculture, energy resources, science and technology, education and population. These revolutionary undertakings complement each other and are all indispensable.

We have stated two types of development strategies in the preceding discussion. China's foreign economic and trade principle is to open up to the outside world and expand exchanges of goods, funds, technology and personnel while accelerating the development of the national economy on the basis of self-reliance. Opening up to the outside world is a means to strengthen self-reliance and achieve the development of the economy. Self-reliance by no means refers to self-sufficiency, nor does it refer to closing the country to international trade. As Stalin said, it would be extremely stupid to consider a socialist economy as something that is closed and independent from the national economies of neighboring countries. He also said: "You cannot imagine a country without exports and imports. Even the richest country in the world, the United States, is no exception." Therefore, socialist countries should "strengthen trade relations with all countries." Of course, opening up to the outside world is not the same as the liberalization of trade, nor is it free trade and still less the "Open Door" policy. China's present practice is, on the one hand, to implement a foreign trade monopoly system, strengthen the centralized and unified management of foreign trade, fix very high import tax rates and exercise the control of foreign exchange to protect the development of national industries.

Judged by such practices as opening up to the outside world and expanding visible and invisible trade to accelerate the national economy's development, China's present development strategy is similar to the export-oriented development strategy, especially in the special economic zones. However, judged from such practices as the emphasis on self-reliance, implementation of the national industry protection policy and restrictions on imports, China's development strategy is closer to the strategy of import replacement. May we say that China's development strategy is between the two while leaning toward the import replacement strategy? May we say that the special economic zones in the coastal area are export-oriented while the vast inland economy leans toward domestic markets and import replacement?

II. Can We Use the Theory of Comparative Costs as the Basis of China's Development Strategy?

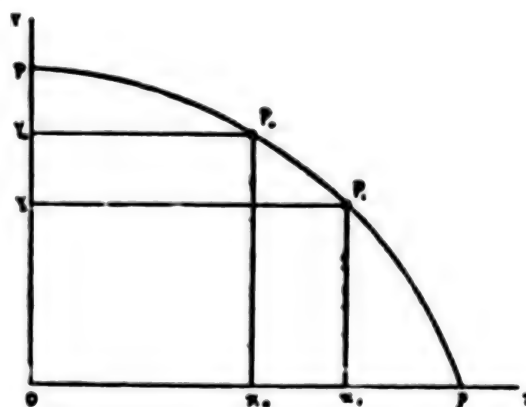
Ricardo's theory of comparative costs is basically a static theory under a series of strict assumptions. It cannot be directly applied to the dynamic world. Its basic assumptions are: 1) two countries; 2) two factors; 3) two commodities; 4) full employment; 5) unchanged technical conditions; 6) domestic markets with completely free competition and mobile commodities, labor forces and capital; and 7) international markets with free competition of commodities but no mobile labor forces and capital. Ricardo contended that under these conditions, if the international division of labor and free trade are practiced, both countries will gain profits. At least one country will gain profits and the other will come out even.

The Ricardo school contends that every country should carry out the specialization of production, namely, engage in the specialized production of those departments in which it has an advantage in production and give up the production of those production departments in which it has a disadvantage. In what departments does it have an advantage? The answer is the departments using a relatively large number of production factors which are relatively abundant in this country. If it has abundant labor resources, it should specialize in the production of labor-intensive products. If it has abundant capital or technological resources, it should specialize in the production of capital-intensive or technology-intensive products. Through international exchange, every country can benefit from the specialized division of labor.

Ricardo believed that conducting specialized division of labor and trade in accordance with the theory of comparative costs, the export departments of every country can increase production, and after exchange, their actual income can increase. This can be illustrated by graphs.

Graph 1: Change of the Best Production Situation from a Closed Economy to an Open Economy

Commodity B (commodities in which production has a comparative disadvantage)



The horizontal axis (OX) of graph 1 indicates the volume of exportable commodity A (not the actual export volume) in country A. Exportable commodities refer to commodities in which country A has a comparative advantage, namely, products requiring a large input of production factors abundant in this country. (Ricardo's examples are wool in England and wine in Portugal.) The vertical axis (OY) indicates importable commodity B in country A, namely, commodities in which country A has a disadvantage or commodities requiring a relatively large number of production factors scarce in this country (wine in England and wool in Portugal). Line PP is the production possibility curve which is also called the production possibilities frontier. This frontier represents the maximum output of country A under the condition of existing production factors and technology. The combination of products is different at different production points on this curve.

When country A is closed to the outside world and has no trade relations with foreign countries, its domestic production will be OX_0 and OY_0 . This is a state of equilibrium, namely, the best situation or highest output attainable by country A in a closed situation.

After breaking through the closed situation and developing foreign trade relations, according to the theory of comparative costs, country A will engage in the specialized production (not absolute specialization) of commodities in which it has a comparative advantage. In other words, country A can carry out specialized production by fully utilizing production factors relatively abundant in its country. Then, the production point of country A will move downward along curve PP from point P_0 to point P_1 . The output of commodities in which country A has a disadvantage will decline from OY_0 to OY_1 . The production factors will be partially transferred from the production of commodity B to the production of commodity A in which country A has an advantage. The output of commodity A will increase from OX_0 to OX_1 . The distance Y_0Y_1 represents the amount of commodity B reduced in country A in which it has a disadvantage. The distance X_0X_1 represents the amount of exportable commodity A increased in country A. If country A uses the amount of commodity A increased at home, which is represented by X_0X_1 , to exchange for commodity B, the amount of commodity B it can acquire from the exchange will be greater than the amount of commodity B (represented by Y_0Y_1) reduced at home. The balance between the amount of commodity B imported and the amount of commodity B reduced at home is the profit gained by country A from the international division of labor and international trade based on the theory of comparative costs. Based on the same principle, the opposite party, country B, can also gain profits from the international division of labor and exchange. This is to say that because production factors are redistributed between production departments A and B through foreign trade, countries A and B can both increase the production of products in which they have a comparative advantage. After trading with each other, they both will end up with a greater number of products than they can produce by themselves. After establishing foreign trade relations, the number of products each country can consume will move toward the right beyond the production point on the production possibilities frontier, which means that it will be greater than the amount of combined products it can produce. In other words, the number of its consumer goods will be greater than the production possibilities frontier.

This is an important conclusion reached on the basis of the static analysis in the theory of comparative costs.

However, if we analyze this issue from the developmental and dynamic point of view, we will reach a different conclusion.

First, foreign trade has a role in accelerating the growth of productive forces in a country because it can promote the specialization of production, encourage invention and innovation, stimulate the utilization of new technology, raise labor productivity, reduce the costs of production, increase profits and accelerate economic development in a country.

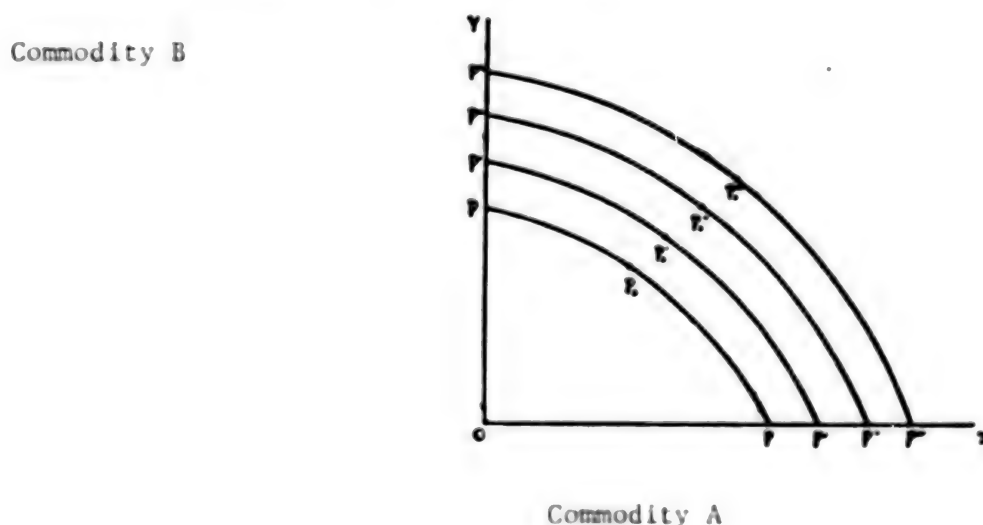
Second, foreign trade can also free a country from the restriction of narrow domestic markets, open up new markets for its products, expand sales and increase production, thereby materializing the benefit of the economies of scale. Foreign trade and the specialization of production in export departments can also accelerate the improvement of production techniques and promote the transfer of special techniques, capital and equipment from abroad, thus increasing the utilization rate of natural resources.

Moreover, profits gained from the increase of labor productivity in export departments and profits gained from the increase of actual income, which results from increases in labor productivity, can be expanded to other sectors of the national economy. The increase of actual income can also result in the increase of savings deposits and capital accumulation.

The adoption of new technology, the economies of scale and the accumulation of capital all belong to dynamic profits. Therefore, foreign trade can yield not only static profits but also dynamic profits. Dynamic profits are often more important than static profits. The theory of comparative costs only considers static profits. Under the assumptions of the theory of comparative costs, technology is unchanged. Therefore, whether under a closed situation or an open situation, domestic production can only move from left to right along the production possibilities curve PP. It cannot surpass the curve PP (only under the situation of unemployment and when production equipment cannot be fully utilized will the production point be lower than curve PP).

The reality is that under the condition of technological advancement, the production point can surpass curve PP. Therefore, by doing away with the static analysis of comparative costs and giving consideration to the dynamic situation of increasing available resources, the production point of country A is able to move outward and toward the right to a higher production possibilities frontier, as illustrated in the following graph:

Graph 2. Transfer of Production Possibilities Frontier



Under the condition of advancing technology and increasing available resources, the production point of country A will move from point P_0 on the curve PP to point P_0' on a new production possibility frontier $P'P'$. Along with the advancement of technology and an increase in capital accumulation, the production point will move further to point P_0'' on curve $P''P''$ or to point P_0''' on curve $P'''P'''$.

In Graphs 1 and 2, production point P_0 implies one way of distributing and utilizing the domestic production factors (natural resources) of country A between two departments (A and B). Production point P_1 implies another way of distributing production factors which according to the principle of comparative costs can create short-term economic results in country A. The question is, which is the best production point in terms of long-term economic results? The best current resource distribution point (P_1) may be the best at present according to the principle of comparative costs, but it is impossible to guarantee that it will be the best in the long run.

Both theory and reality prove that current investment and production policy decisions can affect the position of future production possibility frontiers. If current production is arranged in accordance with the principle of comparative costs, namely, if the proportion of various production factors between departments A and B is fixed according to comparative costs, the production of country A will be stabilized on production point P_1 . This is an impediment to the possibility of transferring the production point from the PP curve to the P'P' curve and the P''P'' curve. If the point P_0 is not the best in the short run, it probably will create the maximum economic results in the long run after adopting new technologies, making new investments and implementing the policy of protective tariffs. In other words, it probably will transfer from curve PP to curve P'P' and P''P''.

The choice of such development strategies is extremely important to developing countries. Because if they carry on an international division of labor and international trade in accordance with the principle of comparative costs, they would be specialized in the production of primary products. Under the condition of free trade and the pressure of foreign manufactured goods, it will be impossible for them to transfer the production point to curve P'P'. This will make them suffer all kinds of losses resulting from the long-term commitment to the specialization of production of primary products.

If they want to develop their national industries, they must discard comparative costs--the principle of free trade--and implement the policy of protection to boost the growth of infant industries.

Although these views are directed mainly against the developing countries, some major points are also applicable to China. Therefore, I think the use of the principle of comparative costs for the basis of China's development strategy is not recommended.

III. Relationship between World Economic Situation and Development Strategy

After World War II, international economic circles had a long argument over the question of which development strategy the developing countries should use to carry out industrialization. The economists of a certain school strongly maintained that the import replacement strategy should be adopted to achieve the objective of economic development. According to the demand of this strategy, some Latin American countries established barriers of trade protection to replace imported goods gradually with the products of domestic industries. They thought that under the protection of high tariffs, it would be possible for their domestic industries to achieve economies of scale, carry out large-scale production,

reduce the costs of production and increase competitiveness, thereby gaining a firm foothold on domestic markets. In fact, the adverse balance of trade and payments, instead of declining, actually increased in these countries after this strategy was adopted. This encouraged the further infiltration of foreign capital. Consequently, fewer and fewer people support this strategy.

When the import replacement strategy failed in these countries, the "extraversion" strategy, namely the export-oriented development strategy, began to draw more and more attention from the people. Some countries reduced import tariffs and allowed foreign products to be imported to compete with their domestic products. At the same time, they vigorously encouraged exports and fully utilized the favorable opportunity created by a rapid increase in the capacity of the world market to expand production and sales, thereby gaining the kind of profits which cannot be acquired by domestic production in merely satisfying the needs of domestic markets. We have all noticed that a number of so-called newly rising industrial countries and regions had extremely rapid economic development due to the adoption of the extroversion development strategy. Nevertheless, it is noteworthy that their achievements were attained under special historical conditions.

In the over 20 postwar years since the 1950's, the world economy experienced a "golden age" and international trade development was unprecedented.

The following is a table of the average annual increase in world trade:

1830-1873	4-5 percent
1873-1913	3-4 percent
1913-1939	0.9 percent
1950-1973	8 percent
1973-1981	3.6 percent

During the postwar years before 1973, the world market expanded and international trade developed rapidly. During this favorable period when the whole world market was expanding and international trade was growing rapidly, it was easier for those countries adopting the extroversion development strategy to adapt to the situation and develop their exports, because the rapid economic recovery and growth in the developed capitalist countries provided a broad market for the export goods of these developing countries and regions. There were also other favorable conditions. For example, through several rounds of multilateral trade talks sponsored by the organization of the General Agreement on Tariffs and Trade, especially the talks involving the Kennedy round of tariff reductions, the developed countries reduced tariffs on a series of manufactured goods, facilitating the trade of manufactured goods. The establishment of the Bretton Woods Monetary System after the war maintained the stability of the exchange rate. In the early 1970's, the developed countries began to practice the system of general preferential treatment, allowing many export goods of developing countries to be imported without taxes or at rates even lower than the most-favored-nation rate. All this played a role in accelerating the development of exports in developing countries. Although very little progress was made in reducing tariffs on some important commodities such as farm products and in eliminating the non-tariff barriers, judged as a whole, world trade was still relatively free and the liberalization of trade still occupied a predominant position until the early 1970's.

Reviewing history, the rate of increase in world trade declined after 1873 and world trade was stagnant in the 1930's. The development strategies formulated by the United Nations for developing countries and the development strategies devised by these countries themselves during the first postwar years were all based on the experience of the historical period when world trade was stagnant. Therefore, at that time, development strategies were introversion strategies. They were mainly oriented toward import replacement and domestic markets. At that time, even UN economic experts also failed to foresee the fast growth of world trade. The average annual growth rate was as high as 8 percent--an unprecedented record.

However, since 1973 the world economic situation changed drastically. The world economy again switched from development to stagnation, and the increase of world trade dropped swiftly. Over 20 years of the "golden age" in the world economy was gone forever. After 20 years of relatively fast growth, the economies of developed countries began to go downhill in 1973. As of this date, they have been unable to restore the growth rate of the past. The former international monetary system has already collapsed. The currencies of all countries have been divorced from gold. Fixed exchange rates have become floating exchange rates. This situation has brought about harmful influences on commodity exports and capital imports. At the same time, high unemployment and inflation are now threatening the capitalist world economy. Confronting this unfavorable situation, waves of strong protectionism are rapidly rising in many developed countries. They have imposed new trade limits on many important manufactured goods such as textile goods, iron and steel, ships and electronics products. The nature of these limits and the variety of the commodities involved have very adverse effects on the potential export income and on the economic development of the developing countries.

The changes in the development of the world economy and trade have great significance in formulating the development strategies of developing countries. If the prospects for the world economy in the next 20 years are optimistic and it is possible to develop the world economy fully, the developing countries will have the potential to develop exports and the possibility of using exports to bring along economic growth. If the prospects for world economic development are dim, there will be another situation. Some economists contend that developing countries should reevaluate the pros and cons in the import replacement strategy in light of the world economy's prospects. The development of China's foreign trade and national economy in the next 20 years is also closely linked to the world economy. Therefore, formulating corresponding strategies and tactics in accordance with the future trend of development in the world economy and trade seems to be an issue worth considering.

12302

CSO: 4006/383

FOREIGN TRADE

HUNGARY'S REFORM OF FOREIGN TRADE PRICE SYSTEM ANALYZED

Beijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 18, Jun 83 pp 26-28, 56

[Article by Sun Jiaheng [1327 1367 1854]: "The Reform of Foreign Trade Price System in Hungary"]

[Text] Foreign trade occupies an important position in the national economy of Hungary. Half of Hungary's national income comes from foreign trade. More than half of the energy resources it needs depends on imports. One-third of its national products need to be sold abroad. Its per-capita exports rank first among East European countries. Therefore, Hungary attaches great importance to the development of foreign trade. During the 30 or so years since the war, its national income increased four-fold while its foreign trade volume increased nine-fold.

The economic reform of Hungary began in 1968. Its focus is the reform of the price system. Based on the evolution of the reform in the foreign trade price system, it can roughly be divided into three stages:

I. The Stage in Which Domestic Prices Were Divorced from International Prices (1945-1967)

Before 1968 Hungary basically used a highly centralized economic management system and used an independent price system completely isolated from international markets. Its characteristics were: 1) The prices of all national products were fixed by the state in a unified manner; 2) consumer prices were divorced from producer prices, and domestic market prices were divorced from international market prices; and 3) profits derived from the differences between domestic and international prices were handed over to the state, and losses derived from such differences were subsidized by state revenues.

II. The Stage of Using the Foreign Trade Price Coefficient on the Basis of a Mixed Domestic Price System (1968-1979)

The reform of the foreign trade price system was closely linked to the system of domestic prices. In the 1968 reform of the economic system, Hungary first reformed the system of domestic prices. The basic principle of this reform was to strive to change the past situation in which commodity prices were markedly different from commodity values and the supply-demand relationship of markets was ignored, to base the determination of prices on production

prices, give full consideration to the factor of domestic and international market changes and reduce state subsidies as much as possible. Based on this principle, Hungary adopted a system of three mixed prices beginning in 1968.

1) Fixed prices: fixed by state price organs for major raw materials, basic consumer goods and service industries; 2) negotiated prices under the restriction of official prices: applied to building industries, certain raw materials and general consumer goods, including the highest prices and floating prices within the specified range; and 3) free market prices: fixed by enterprises in accordance with market situations (beginning in 1973, enterprises were required to report to the authorities before raising prices). After adopting the mixed price system, the proportion of the above three types of prices among national products was roughly as follows: Among industrial raw materials and semifinished products, 30 percent were fixed prices, 42 percent were negotiated prices and 28 percent were free market prices; among manufactured goods, 19 percent were fixed prices, 3 percent were negotiated prices and 78 percent were free market prices; and among daily consumer goods, 20 percent were fixed prices, 30 percent were negotiated prices and 50 percent were free market prices.

On the basis of the reform of the domestic price system, Hungary correspondingly reformed the foreign trade price system. To establish a definitive link between domestic and international prices, it conducted regulation by formulating foreign trade price coefficients. A price coefficient is also called a price multiplier and is calculated on the basis of average costs for a given amount of foreign exchange earnings. It is a measure for a state to regulate exports and imports by economic means. Instead of calculating the foreign exchange of import and export commodities according to fixed exchange rates, the state fixes different exchange rates for different commodities and localities during different time periods according to the provided coefficients. Since such coefficients usually can reflect the ratio between the real value of domestic and foreign currencies, they are conducive to accelerating the economic reckoning of enterprises. Through the conversion of such coefficients, enterprises can compare the economic results of export and import commodities and domestic products, choose to export more products with higher exchange rates and give up the importation of certain commodities. This can, to a certain degree, reduce the disparity between domestic and international prices. However, since the prices of commodities exported to different markets vary substantially, the variety of export and import commodities was great and the production costs of different departments were not exactly identical, it was impossible for the Hungarian government to formulate so many coefficients. At the same time, since international market prices changed frequently, such coefficients sometimes could not reflect the ratio of real values. Therefore, while using foreign trade price coefficients, the Hungarian government still needed to supplement regulation with price subsidies and customs tariffs. During this stage, there was still virtually no link between domestic and international prices in Hungary.

Since the 1970's, the domestic economy of Hungary has been directly affected by international market prices, especially by the energy price increases in 1973. In order to avoid the influence of international price changes, Hungary had no choice but to provide more price subsidies to stabilize its domestic market. Major price subsidies issued by the state for foreign trade were

price subsidies for imports. In 1971 only 0.2 billion forints worth of import price subsidies were issued. In 1973 the figure rose to 6 billion forints. In 1975 it rose again to 28 billion forints. In 1978 it reached 40 billion forints, surpassing that year's revenues from circulation taxes for the entire country. The increasing amount of import price subsidies expanded state expenditures and caused great economic losses to Hungary.

In view of the above situation, in 1975 Hungary pointed out the need to reform the price system, adapt domestic market prices to changes in international market prices, gradually establish a system that links domestic and international prices, reduce the amount of price subsidies issued by the state and reform the tax system. Hungary also pointed out that striving to convert the forint into a convertible currency should be considered a long-run goal.

When he discussed the price theories and policies in socialist countries, Bela Csikos-Nagy, director of the state supply and price bureau and chairman of the economic and scientific association of Hungary, said: "We can only use international competitiveness to measure economic results. If we want to hold our own in international competition, we must observe the constant changes in the conditions of the international division of labor and adopt corresponding measures in a timely manner." He contended: "We should establish a definitive link between domestic and international prices. This is more conducive to serving economic competition under two socio-economic systems. Through foreign trade organs, socialist countries can understand the price situations of international markets and establish such an organic link." Based on this theoretical understanding and in light of its actual national conditions, in 1976 Hungary put forward a complete set of reform plans as the basis of investigation and study. After making full preparations and carrying out experiments in selected units, in 1980 it adopted for the first time a system of competitive prices, thereby further tightening the link between domestic and international prices.

III. The Stage of Using a Competitive Price System in Order to Transfer to a System That Links Domestic and International Prices (after 1980)

Beginning 1 January 1980, Hungary adopted a system of competitive prices. Under this system, the prices of domestic products are determined basically according to the prices of products exported to and imported from international markets. This system demands that domestic prices reflect the constantly changing price levels on international markets, thereby closely linking domestic and international prices. It also uses international standards to judge the management results of enterprises. The pricing principles of the new system and the scope of its application are specified as follows:

1. The domestic prices of fuel and raw materials such as petroleum, iron sand, metals, metal ores, leather, timber, rubber and plastics are determined according to the current prices of such products imported from international markets (except for areas using rubles).
2. The domestic prices of the finished or semifinished products of some competitive industrial departments such as machinery, transportation, electrical machinery, communications technology, vacuum technology, instruments and

meters, metals, chemicals, medicine, leather shoes and light industry are determined according to the current prices of such products exported to international markets (except for areas using rubles).

3. Competitive prices are not used for the time being in departments such as food, communications and transportation and construction because these departments have high energy consumption levels and there is a great gap between the international competitiveness of agriculture and that of industry (the cost levels of farm products are 30 percent higher than their price levels on international markets). Competitive prices are also not used in cultural, educational, public health and social service departments.

According to the above principles and scope of application, competitive prices are applied to about 40 percent of the output value of the publicly owned economic sectors and about 70 percent of the industrial output value. As for departments and products to which competitive prices are not applied, relative prices should be determined according to competitive prices. Among the various types of prices under the mixed-price system, the proportion of fixed prices is reduced while that of negotiated and free market prices is correspondingly increased.

Hungary carried out this new price system in a step-by-step manner, allowing enterprises a period to adjust and improve. For example, some enterprises gain more profits because the export prices of their products are high. Their profit rate can reach 20 to 30 percent. Some enterprises gain fewer profits because the production costs of their products are higher than their export prices. There are even enterprises operating at a loss. Their deficit rate can reach 20 to 25 percent. Because of this, the state set a 15 percent limit on the highest profit rate and a 2 percent limit on the lowest. Profits above the highest limit should be handed over to the state. As for enterprises having profit rates below the 2 percent limit and enterprises operating at a loss, the state will provide temporary export price subsidies or tax exemptions and reductions within a 5-year limit. Hungary stipulated that in principle the state should help these enterprises raise efficiency, improve management and increase competitiveness and guarantee that their profit rates not be lower than 3 percent in 1980 and 1 percent in 1981. Beginning in 1982, the state will not provide any guarantee. By 1985 the state will try to eliminate all price subsidies and make the price levels of domestic markets basically identical to international markets. The purpose in doing so is to encourage domestic enterprises to increase labor productivity, save energy resources and reduce production costs to become truly competitive on the international markets.

Since the adoption of the new price system, the foreign trade situation in Hungary has markedly improved. In 1980 and 1981, there was a near balance of trade payments made in currencies other than the ruble. In 1982, there was a surplus. According to a report in the Hungarian newspaper OBSERVER on 19 May 1982, Hungarian economic circles basically approved the new price system. They affirmed that the present pricing principles were basically feasible and should be continuously applied. At the same time, they also pointed out that the adoption of competitive prices unavoidably resulted in a number of new problems;

1. International price increases and inflation are bound to affect domestic price increases and inflation. Under this circumstance, unless workers' wages are adjusted accordingly, workers' actual living standards will decline. It was reported that after two substantial price increases in 1979, consumer prices in Hungary rose 9 percent on the average. Prices were readjusted three times in 1980 and three more times in 1981. Consumer prices rose 10 percent on the average in 1981. Beginning 9 August 1982, the prices of bread and chocolate rose 25 to 20 percent, respectively. In September 1982, communications expenses increased two-fold and the prices of other consumer goods all went up. The average rate of increase of consumer prices in 1982 was not to be lower than that of the previous 2 years. In spite of the wage subsidies and various other subsidy measures adopted by the state, the living standards of some people declined after the price increases.

2. In order to adapt to the price hikes of international markets, the forint must be revalued. Consequently, the prices of all Hungarian export commodities calculated in dollars must also be increased. It is obviously unfavorable for Hungary to enter the competition of international markets. It also affects the expansion of exports. At the same time, if the prices of high-grade domestic consumer goods are reduced to adapt to international markets, state revenue will also be affected.

3. There is an imbalance of benefits among enterprises. Some enterprises purchase their raw materials and fuel at free market prices and sell their products at fixed prices. If the prices of these raw materials and fuel increase according to competitive prices, their production costs will increase and their profits will decline. Conversely, if they purchase their raw materials and fuel at fixed prices and sell their products at free market prices, their production costs will decline and their profits will increase when the prices of raw materials and fuel increase according to competitive prices. Generally speaking, the profits of enterprises producing raw materials and fuel tend to be on the low side and that of the enterprises in the processing industries tend to be on the high side.

This tells us that by reforming the foreign trade price system, Hungary has solved some problems, but it has also created new problems. Hungarian economic circles contend that in theory it is undoubtedly necessary to compare domestic production costs with the actual prices of international markets, consider this comparison as a criterion for judging the success and failure of domestic enterprises and establish a system that links domestic and international prices. However, international market prices are not necessarily an accurate measurement for the necessary labor consumption of the international community. They are constantly affected by such factors as monopoly and speculation. Therefore, sometimes they can also deviate from the values of products and the prices of production. Moreover, in light of the current situation in Hungary, imposing too much pressure on enterprises and adopting overly drastic measures in the course of the reform can cause some enterprises to close down and workers to lose their jobs. This is again not permitted by the political principles under socialism. Therefore, it can be done only by gradually guiding the reform in accordance with the circumstances. Mandatory and coercive measures will not succeed. At the same time, the government should also try its best to help enterprises improve management and adapt to the new reform as soon as possible. In sum, the current new price system in Hungary is still in an experimental stage. It needs to be further developed and continuously improved.

FOREIGN TRADE

EXCHANGE OF UNEQUAL VALUE, VALUE TRANSFER DISCUSSED

Beijing GUOJI MAOYI [INTERNATIONAL TRADE] in Chinese No 21, Sep 83 pp 18-23

[Article by Yuan Wenqi [5913 2429 4388]: "Further Comments on the Exchange of Unequal Value and the Theory of Transfer of Value in Modern International Trade." Passages between slash marks (/) underlined in original text]

[Text] Issue No 6 of GUOJI MAOYI [INTERNATIONAL TRADE] in 1983 carried an article entitled "Several Issues on International Value." The main argument of this article is that the exchange of commodities based on international value is the exchange of unequal value. Under this condition, the differences in the labor productivity of different countries become the basic component of the exchange of unequal value and the major cause of the "transfer of value." The main points of this article are as follows: 1) Labor productivity and labor intensity play different roles in the formation of international value; 2) excess surplus value does not come from the process of direct production, rather it comes from "selling commodities at prices higher than their values"; 3) "international value is calculated not on the basis of labor time but on the basis of labor intensity"; and 4) how to explain Marx's theory on "the exploitation of poor countries by rich countries" in his "theory of surplus value."

The author thinks the above arguments and premises are worth discussion.

I. Issue of the Role of Labor Productivity and Labor Intensity in the Formation of International Value

Indeed, labor intensity and labor productivity are two different concepts. The former refers to the degree of labor consumed per unit of time; the latter refers to the efficiency of the laborer in production, usually calculated on the basis of the amount of labor used per unit of product. However, as Marx clearly pointed out: "The more developed the capitalist production is in a country, the higher the level of /the intensity and productivity of its national labor/ would be compared to the international level. Therefore, using the same amount of labor time, different countries can produce different numbers of commodities of the same kind which then have different international values." "National labor with higher productivity is also considered labor of a greater intensity on the world market." "National labor of greater intensity can produce more value than would national labor of lower intensity during the same period of time."¹ Judged from Marx's above remarks,

it is very obvious that although labor intensity and productivity are two different concepts, the difference of labor intensity plays a role totally identical to that of the difference of labor productivity in the formation of international value.

Some comrades contend that since the national labor of higher productivity is "considered" the labor of greater intensity on the world market, and in fact cannot do what the labor of greater intensity can, it is impossible for it to produce more value. I understand that this is a misinterpretation of Marx's remarks, because he clearly pointed out: "As long as the countries of higher productivity are not compelled by competition to reduce the sales prices of their commodities to the level of their value, the national labor of higher productivity is also considered the labor of greater intensity on the world market." "Labor of extremely high productivity plays the role of involution. In other words, it can produce much more value than the average social labor of the same nature during the same period of time."² From this we can tell that given certain conditions, the national labor of higher productivity can play a role equivalent to that of the national labor of greater intensity on the international market and that it can also create more value than the average social labor of the same nature during the same period of time.

II. Issue of the Source of Excess Surplus Value

Indeed, if our discussion stops here, we will not be able to explain the source of excess surplus value, nor will we be able to judge whether the theory of the "transfer of value" is correct. Then where does excess surplus value really come from? Does it come from the process of production or the process of circulation? Is it produced by the surplus labor of the workers of one enterprise within its own department? Or is it transferred from another enterprise within the same department? This issue seems to be the real focus of the current controversy in academic circles. In fact, if we review Marx's remarks concerning the theory of relative surplus value, it will not be difficult for us to find out that excess surplus value comes from the process of production, not the process of circulation, and that excess surplus value is created by the surplus labor time of the workers of one enterprise, not transferred from another enterprise within the same department. When discussing this issue, Marx clearly pointed out: "By introducing new machinery, if [competitors'] mass production is still based on the old means of production, capitalists can then sell their commodities at prices lower than their social value but higher than their individual value.... They are cheating other commodity owners by raising the prices of their commodities above their value, not by reducing necessary labor time and extending surplus labor time. /However, this is merely an illusion./ Because in this case the labor has a special productive force which the average labor of the same department does not have, it has become a labor force greater than the average labor force.... It is the involution of simple labor. However, since capitalists pay their workers according to average labor, a few hours of labor (under the new condition) equal many hours of labor. /Capitalists/ pay for the labor of /their own workers/ on the basis of average labor but actually sell it for the price of greater labor. A given amount of such labor equals a larger amount of average labor.

"Therefore, based on this assumption, the workers can produce the same amount of value by using less time and labor than would average workers. In fact, they can produce their own wages and reproduced the value equivalent of the means of subsistence for their labor force by using less labor time than would average workers. In this way, they hand over a rather great amount of labor hours to capitalists as surplus labor. Only this kind of relative surplus labor can allow capitalists to sell their commodities at prices higher than their value. /Only through sales/ can capitalists /realize/ this kind of surplus labor time, or /realize/ this kind of surplus value. However, /this kind of surplus value is not derived from sales; it is derived from the reduction of necessary labor time/ which results in a relative increase of surplus labor time."³

From Marx's brilliant remarks, we can understand the following few points: 1) When the capitalists of an individual enterprise adopt a new technology which has not been widely adopted in the same sector, they can raise labor productivity, allowing the individual value of their products to fall below the level of social value, and thus acquire surplus profits when selling their products. However, this surplus profit, or excess surplus value, is not derived from sales or the process of circulation; it is derived from the process of production in which capitalists use surplus labor time relatively increased by their workers for free. 2) Although excess surplus value comes from the relative surplus labor of enterprise workers, it is realized by capitalists through sales--namely the process of circulation--because capitalists sell their workers' labor as greater labor while they pay for it as average labor. However, we must not confuse the /source and the realization of excess surplus value/. 3) Excess surplus value is created by the relative surplus value of the workers of one enterprise within its own sector. It is not transferred from the value created by the workers of other enterprises within the same sector. Marx's theory of relative surplus value precisely exposes how capitalists increase the degree of exploitation of their enterprise workers by squeezing their relative surplus value, thereby exposing the relations between capitalists--the exploiting class--and the workers--the exploited class. If we were to consider excess surplus value as value "transferred" from other enterprises or countries, the class relationship exposed by Marx through the theory of relative surplus value would have become the relationship between different enterprises and countries.

Judging from Marx's remarks on relative surplus value that we have discussed, obviously the view that differences in labor productivity can result in the "transfer of value" has no theoretical basis.

Marx's theory is also applicable to the international arena. His theory is consistent also in his discussion of foreign trade. In explaining why the capital invested in foreign trade can create higher profit rates, he said: "First of all, the competition is against the commodities produced by countries with relatively disadvantageous production conditions, therefore, relatively developed countries sell their commodities at prices higher than the value of their commodities but lower than the prices of rival countries; as long as the relatively developed countries can materialize their labor as labor of greater intensity, they will be able to increase their profit rates because such labor is not paid for as but is sold as, labor of higher quality."

"For example, when a plant manager adopts a new invention which has not been widely used, he can offer cheaper prices than his rivals, but the sales prices of his commodities are still higher than their individual values. This means that he materializes the particularly high productive force of the labor he employs as surplus labor, thereby realizing a surplus profit."⁴

From Marx's theories, we can also understand that in a global context, when a certain country adopts a new technology which has not been widely adopted by other countries, it can increase its labor productivity and reduce the value of its commodities below the international level. If this country sells its commodities at prices equivalent to or lower than the international value but higher than their national value, it can realize excess surplus value. However, this excess surplus value is not /derived/ from foreign trade. In other words, it is not "transferred" from countries with lower labor productivity participating in foreign trade. It is created by the relative surplus labor of the working class in countries with higher labor productivity which first adopt new technology. It is only /realized/ through international trade. Such labor is not paid for by countries adopting new technology as labor of higher quality but is sold as labor of higher quality on international markets. Therefore, through foreign trade, the capitalist class in countries with higher labor productivity can /realize/ an excess surplus value created by the relative surplus labor time of the working class in their own countries.

Therefore, the error in the "theory of the transfer of value" is that the excess surplus value /created/ by the relative surplus labor of the workers in countries with higher labor productivity is confused with the excess surplus value /realized/ through foreign trade.

III. Issue of the Unit of Measurement for International Value

The article "Several Issues on International Value" states: "International value is measured not according to labor time but according to labor intensity." It also quotes as a basis a paragraph from a Chinese translation of the French edition of "Das Kapital," Vol I which reads: "The average or normal intensity of national labor is different in different countries....

Therefore, the national average of different countries forms a ladder. The universal normal intensity of labor is the unit of measurement for this ladder."⁵ I think this is another misunderstanding of Marx's thinking. First, Marx clearly pointed out that the /average labor intensity of different countries/, not /international value/, forms a ladder. Second, labor intensity is the content of labor. A relatively large amount of labor compressed in a given amount of time can also be considered as the extension of labor time. Therefore, it is obvious that the view "international value is measured not according to labor time but according to labor intensity" is not Marx's thinking. As for the concept that international value is measured with the necessary labor time of the world, Marx gave a clear explanation in his works. He said: "For example, the value of cotton is not measured with the labor hours of England. It is determined by the average necessary labor time on the world market."⁶ Therefore, according to Marx's theory of the determination of value, labor exceeding the necessary world labor time cannot create value, thus it has no "value" to be transferred.

However, this in no way means that the exchange of unequal value does not exist in international trade. Nor does it mean that developed capitalist countries do not exploit or transfer value from developing countries. As a matter of fact, the exchange of unequal value and the transfer of value happen constantly on the modern capitalist world market. The author has discussed this issue in several previous writings. The issue is that the exchange of unequal value, exploitation and the transfer of value are all generated by monopoly, extraeconomic coercion or violence and fraud. They have nothing to do with the differences in labor productivity. Some comrades contend that the difference in labor productivity can cause the transfer of surplus value and that countries with higher labor productivity can extort surplus profits from countries with lower labor productivity in the exchange of commodities. They use Marx's quotation "relatively rich countries exploit relatively poor countries" as a proof of casuality.⁷ Did Marx really mean that the differences in labor productivity cause rich countries to exploit poor countries? No. In order to understand this sentence comprehensively, completely and accurately, it is necessary to quote Marx's complete discussion of this sentence for our analysis and study.

Marx wrote: "There is only one correct view about foreign trade in the annotations by Jean Baptiste Say on the works of David Ricardo, translated by (Constancio?). That is: Through fraud, one can make profits by acquiring what another loses. Deficits and profits are balanced in a country, but the situation is different in the interrelations among different countries. Judged by the theory of David Ricardo--this is what Jean Baptiste Say did not notice--one country's three workdays can also be exchanged for another country's one workday. The law of value has drastically changed here. In other words, the proportion between the workdays of different countries may be like the proportion between skilled and complicated labor and unskilled and simple labor in a country. It is under this circumstance that relatively rich countries exploit relatively poor countries. The situation remains the same even when the poor countries benefit from the exchange, as described by John Stuart Mill in his book 'Brief Discussion of Certain Issues in Political Economics That Need To Be Resolved.'"⁸ At present, domestic academic circles have a difference of opinions on this quotation. They seem to agree basically on the first part--the first three sentences--of this quotation, in which Marx referred to the exploitation and the exchange of unequal value resulting from "fraud." It is the second part of the quotation that causes most disagreements. Some comrades contend that the second part refers to "another kind of exploitation--exploitation under the disguise of the exchange of equal value." Their reasoning is: "If Marx was talking about the exchange of unequal value relative to fraud, then there would be no need for him to mention the issue of the change in the law of value."⁹ I think this view needs to be discussed. First, the reason that Marx mentioned the issue of the change in the law of value is to answer the question of why one country's three workdays can be exchanged for another country's one workday. "One workday" and "three workdays" mentioned here refer to the labor time used by two different countries to produce the same kind of commodities. Therefore, they have the same amount of international value according to the international yardstick--"the average unit of world labor." Second, if we say that the second part of Marx's quotation refers to the kind of exploitation under the disguise of the exchange of equal value, then how do we explain the following sentence--"In other words,

the proportion between the workdays of different countries may be like the proportion between skilled and complicated labor and unskilled and simple labor in one country?" As we know, Marx always believed that the proportion between complicated labor and simple labor is that one unit of the former equals several units of the latter. In other words, the value of goods produced by one unit of complicated labor equals the value of goods produced by several units of simple labor. The exchange of these two goods reflects the relationship in the exchange of equal value. It is impossible for the side of complicated labor to exploit the side of simple labor as in the relationship between exploiters and the exploited. Therefore, the sentence "it is under this circumstance that relatively rich countries exploit relatively poor countries" apparently does not mean "the exploitation under the disguise of the exchange of equal value." Third, then what does "under the circumstances" really mean? Under what circumstance do rich countries exploit poor countries? I think it still means "through fraud." On this point, I agree with what Comrade Wang Linsheng [3769 2651 3932] said in his article "Issues Concerning the Assessment of Ricardo's Theory of Comparative Cost": "Even according to Ricardo's theory that one country's three workdays can be exchanged for another country's one workday, rich countries still can extort profits from poor countries through fraud or by selling high and buying cheap."¹⁰

From this, we can tell that it is through monopoly, extraeconomic violence and fraud that rich countries exploit poor countries and that it has nothing to do with the differences in the labor productivity of different countries.

What needs to be noted is that some comrades think "the differences in labor productivity provide a basis for the second kind of exploitation." Therefore, "in the present struggle to destroy the old international economic order and establish a new one, developing countries need to oppose not only exploitation by the exchange of unequal value but also the second kind of exploitation."¹¹ This view apparently totally misunderstands the tasks and objectives of the present struggle to destroy the old international economic order and establish a new one. As far as foreign trade is concerned, the main task and objective is to improve trade conditions by fundamentally eliminating the long-time practice in history by which imperialists and new and old colonists sold manufactured goods at high monopoly prices and purchased primary products at low monopoly prices and used extraeconomic measures such as coercion and fraud to exploit Third World countries. However, this kind of exchange of unequal value and exploitation has nothing to do with the differences between the labor productivity of the developed countries and that of the Third World countries. Therefore, the objective of the present struggle to destroy the old international economic order is not to oppose the so-called exchange of unequal value caused by the differences in labor productivity; it is to oppose the real exchange of unequal value and exploitation caused by monopoly factors and extraeconomic factors such as coercion and fraud.

The article "Several Issues on International Value" asserts: "It is absolutely true that you are subjected to exploitation if your labor productivity is low." If this is true, we would like to ask the following questions:

1. Generally, the present level of our country's labor productivity is lower than that of developed capitalist countries but higher than some developing

countries. Based on the view "exploitation is caused by differences in labor productivity," we would reach a conclusion that in international commodity exchanges, our country exploits certain developing countries whose productivity level is lower than ours while being exploited by developed countries. Is this possible?

2. The level of labor productivity differs markedly in different countries, even among those developing countries of the Third World where the means of production is privately owned. Particularly since the 1970's, such differences have become more obvious. For example, the present level of labor productivity in Singapore and Mexico is obviously higher than in some African countries. Based on the view that "exploitation and the transfer of value are caused by differences in labor productivity," we would reach a conclusion that in international commodity exchanges, those Third World countries where labor productivity is higher are exploiting those Third World countries whose labor productivity is lower. Is this possible? Is it true that the South-South economic and trade cooperation which we are now advocating is established not on the basis of equality and mutual benefits but on the basis of the relation between exploiters and the exploited? This is obviously not proper.

This tells us not only that the view that "exploitation is caused by the differences in labor productivity" lacks a theoretical basis but it is also unfavorable in practice for our country vigorously to expand economic and trade relations with foreign countries and develop South-South economic and trade cooperation. It is also unfavorable for the Third World countries to carry out the struggle to destroy the old international economic order and establish a new one. Therefore, the present argument around these theoretical issues in economic theoretical circles indeed has great immediate significance.

FOOTNOTES

1. Marx's "Das Kapital" Vol 1 p 614. Slantlines are added by the author.
2. Marx's "Das Kapital" Vol 1 p 354.
3. "The Complete Works of Marx and Engels" Vol 47 pp 361-362. Slantlines are added by the author.
4. Marx's "Das Kapital" Vol 3 pp 264-265.
5. The latest edition published in 1975 by the Bureau for Editing the Works of Marx, Engels, Lenin and Stalin renders it as "Its unit of measurement is the average unit of the world labor."
6. "The Complete Works of Marx and Engels" Vol 47 p 405.
7. See the article "Several Issues on International Value" in GUOJI MAOJI, No 6, 1983.
8. "The Complete Works of Marx and Engels" Vol 26, Book 3 p 112.

9. GUOJI MAOYI No 6, 1983 p 17.
10. "Selections from GUOJI MAOYI" p 105.
11. "Several Issues on International Value" by Chen Longshen [7115 7127 3234], a thesis presented to the 1982 Kunming Seminar of Chinese Society of International Trade.
12. GUOJI MAOYI No 6, 1983 p 17.

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GENERAL

PLANNED ECONOMY, ECONOMIC SYSTEMS DISCUSSED

Beijing CAIZHENG YANJIU [FINANCIAL AFFAIRS] in Chinese No 1, 31 Jan 84 pp 21-37

[Article by Xu Yi [6079 3015]: "The Planned Economy and the Economic System --the Relations Between the Mode of Production, Economic Laws and Economic Systems"]

[Text] The socialist economy is an economy founded on public ownership, and its basic characteristic is planning. The creation and restructuring of the economic management system should aim at enhancing its planned nature. Due to the uneven levels of productive forces and the diverse economic components in such a large country as China, we follow the principle of giving first place to the planned economy, supplemented by market regulation. Market regulation can only serve as a supplement and should be subject to state control. While understanding and admitting the spontaneity of the market mechanism, in line with the socialist economic laws we should restrict this spontaneity by means of the economic system and economic levers.

The purpose of restricting the spontaneity of economic activities and enhancing the planned nature of the economy is to make our economic activities consciously conform to the objective law of socialist economics.

The objective economic laws of socialism mainly include the following:

1) The basic economic law of socialism; 2) the law of planning and proportionality; 3) the law of distribution according to labor; and 4) the law of value. There are bases for the emergence of these laws and inherent links between them, both mutually conditioning and mutually restricting. They are also intrinsically linked with the law that production relations must adapt to the productive forces and the law that the superstructure must adapt to the economic base. When we stress acting according to the economic base, we are referring to this set of laws, not just any one law. No law can produce an effect in isolation.

The planned nature stressed by us is essentially farsightedness, i.e., consciousness in acting according to the laws. Therefore, the scientific nature of plans means understanding and controlling the system of objective economic laws.

Economic management systems are the forms and methods followed by the state in managing the economic organizations. They are the subjective manifestations of the objective production relations and the rules whereby we regulate our own actions by the objective laws.

A specific social and economic base requires a commensurate specific superstructure which upholds, consolidates and develops the economic base.

Representing the will of the ruling class, the state is the most powerful superstructure exercising the functions of legal authority on the economic base. It creates rules and orders to safeguard the consolidation and development of its own economic base. "In terms of any production mode which wishes to cast off simple fortuity and arbitrariness and attain social stability and independence, these rules and orders are an indispensable factor."¹

In a class society, the modes and ends of production, which change according to the nature of ownership, are different, and thus the economic regulations are also different. The rules and systems of order establishing the state are also different.

For example, due to the dominance of the landowners, the landlord class in feudal society was the ruling class. Therefore, the orders and rules created by a feudal state protected the landlord class in its exploitation of the peasants by means of its land ownership, turning the peasants into tenants. The social orders and rules served to maintain the tenancy relationship between the landowners and the peasants, and the exploitative levers were ground rents, usury, the corvee and taxes.

In capitalist society, due to the dominance in the ownership of the means of production by the capitalists, the bourgeoisie is the ruling class. Therefore, the orders and rules created by the capitalist states protect private property and capital exploitation and maintain the hiring system in relations between the capitalists and the workers, including free hiring, free dismissal and free market competition. Their exploitative levers are surplus value, production prices, wages, credit interest, taxes and public debt.

The economic laws--especially the basic economic laws, which are based on the different modes of production, i.e., the different forms of combination between the laborers and the means of labor and the different goals of production--differ. Thus, the rules and orders created by them are determined by the production modes and the basic economic law of the particular societies. Consequently, the economic levers used to implement the rules and orders also differ. All these are determined by the particular laws in the production process, not by subjective will.

Our purpose in studying the relations between the economic laws of socialism, management systems and levers is to create consciously the rules and orders suitable to our economic base, apply correctly the economic levers to regulate the modes of distribution and exchange and adapt them to the mode of production

and, on this basis, master the application and control of objective economic laws in China's socialist construction. In other words, we must, on the basis of correctly understanding the objective laws, correctly determine the financial and economic management systems; correctly arrange the systems on planning, finance, banking, resources and price management; correctly plan the relations and authority and responsibility between the state and industries and between the central government and the localities; correctly handle the distribution of social products; and correctly manage the division of labor between authority and responsibility and the distribution relations. Belonging in the realm of production relations and reproduction, these are major issues in adapting the production relations to the productive forces, activating the enthusiasm of all quarters and promoting the development of the productive forces. Nevertheless, properly arranging production relations is not equivalent to properly arranging the proportionate relations between material means and reproduction. Moreover, certain contradictions are still found between them. Therefore, to regulate the contradiction between enthusiasm and planning, we must apply a set of economic levers and organically coordinate them before we can reinforce and make sound the socialist superstructure and consolidate and develop the economic base.

Only by mastering these skills will we, as Comrade Deng Xiaoping said, find the path for socialist construction with Chinese characteristics. It is the road to improving the quality of China's planned economic management and enhancing the socioeconomic results and the basic way to achieve planning, balance, results and speed.

I. Relations between the Planned Economy and the Socioeconomic Structure

1. Importance of Studying the Socioeconomic Structure

According to basic Marxist principles, the socioeconomic structure refers to "the specific and inevitable relations independent of their will occurring among people in the social production where they find themselves, i.e., the production relations commensurate with the particular developmental phases of their material productive forces. The sum total of the productive relations forms the socioeconomic structure, i.e., the actual base with a legal and political superstructure erected on top and possessing a particular commensurate socioideological form."² Different socioeconomic structures, namely, the production modes of the material life, condition the entire course of social, political and spiritual lives. "Regardless of which social form, it absolutely will not perish before the full play of all the productive force held within it, and a new and higher production relation absolutely will not emerge before the maturity of the material conditions for its existence in the womb of the old society. Therefore, mankind has always proposed only the tasks which can be solved.... Only when the material conditions for its solution already exist, or are at least in the course of formation, will it emerge."³ Marx's statement that the new and higher production relation can only emerge when its material conditions already exist, or are at least in the course of formation, indicates that there is a process from quantitative to qualitative change in the development of the productive forces of the new and higher production relation. It also indicates that the emergence of the new and higher production relation

signifies a qualitative change in the social form, namely, the achievement of dominance or leading position of a certain kind of ownership of production means culminating in a new social system. The economic structure formed from the sum total of the new and higher production relation becomes then the actual base to condition the entire social, political and spiritual lives of society. But due to the uneven development of the productive forces, remnants of the former economic form are bound to exist, or coexist, in the same social system.

In capitalist society, where the capitalist ownership of the means of production using hired labor as the main instrument occupies the dominant position, and the bourgeoisie controls state power, and though precapitalist economic remnants are still found, the capitalist economy has become the actual base of its production relations. In socialist society, where the development of the socialization of production has achieved the public ownership of modern large industrial means of production and the proletariat controls political power, though diverse economic components are still found, the socialist economy has become the actual base conditioning all social life.

Thus, every socioeconomic structure follows the course of formation, development and decline. With the development of productive forces, the new and old production modes undergo a course of replacement and supplantation. Before the emergence of socialist society, this course was always spontaneous. The rising class occupying the dominant position, starting from its own interest, instinctively propels the course and relies on political struggle to obtain control.

The already established socialist socioeconomic structure also follows a course of emergence and development. With the growth of productive forces, it will consciously and continuously consolidate and develop the socialist mode of production and will gradually advance toward an even higher socioeconomic structure. That socialist society can change spontaneity to consciousness basically hinges on the union of the social ownership of the means of production with the socialization of production. Thus, we are able to emancipate ourselves from all the narrow outlooks and conflicts of interest of the exploiting classes of the past and understand the necessity of the simultaneous development of need and the means to satisfy it. Precisely as stated by Engels, "when society becomes the master of all the means of production and utilizes them according to social planning, it will eliminate the state where people have until now been enslaved by their own means of production."⁴ "By then, the laws controlling people's own social acts, the hostile laws which are the same as the alien natural laws, will be skillfully wielded by them and will obey their command."⁵ Though not yet totally, our society has basically occupied the means of production, thereby creating the material conditions to turn spontaneity to consciousness.

The restructuring of China's socioeconomic structure is achieved under the leadership of the working class and its political party, in accordance with scientific socialist principles and China's national conditions, in line with the principle of adjusting the production relations with the developmental levels of the productive forces and by means of the superstructure, especially the force of state power.

At the time of national liberation, for instance, we relied on political power to confiscate bureaucratic capital, create the state-owned socialist economy and seize the land of the landowners and give it to the tillers. In the transitional period from the new democracy to socialism, we carried out the socialist reform of agriculture, handicraft and capitalist industry and commerce. The characteristic here was that China's socialist reform did not resort to the means of coercion but followed the principle of adjusting the production relations to the nature of the productive forces by relying on the state-owned economy, which served as the levers of socialist economic force, and on state finance to introduce the policy of "dividing up the fat" of capitalist industry and commerce and by implementing a series of transitional forms, ranging from elementary to advanced state capitalism, including commissioned processing, planned commodity ordering, state monopoly of purchasing and marketing, commissioned marketing, public and private joint operation and joint operation of entire trades, and finally the reform achieved by peaceful buying-out of the bourgeoisie. In terms of individual farming, we followed the methods of voluntary participation and mutual benefit, demonstration by typical models and financial support and created transitional forms such as temporary mutual-aid teams, which progressed to year-round teams, and elementary agricultural cooperatives of a semi-socialist nature, which progressed to advanced socialist cooperatives. Similar methods were adopted in terms of individual handicrafts. At the same time, we enlarged the state-owned economy in industrialization construction. Thus, by the completion of the First 5-Year Plan, the socialist economy had been basically built on the basis of public ownership.

In the course of building the socialist mode of production, we integrated the universal truths of Marxism-Leninism and China's concrete reality; therefore, it was creative in nature and possessed its own characteristics. However, due to inexperience, certain defects appeared in the creative course, mainly partial deviations in the agricultural cooperative movement and the reform of handicrafts, industry and commerce after the summer of 1955. The problems were very quickly perceived. Thereupon Comrade Chen Yun pointed out: "At the height of the socialist reform of agriculture, handicraft and capitalist industry and commerce, due to the excessive speed of the development of the situation, it was difficult for the concrete organizational and guidance work to keep pace completely, and certain temporary and partial mistakes occurred.... These mistakes were: (1) In the course of organizing handicraft cooperatives, the undue stress on the combined and unified computation of profit and loss was unfavorable to handicraft operation. As a result, the quality of some products, compared with before, dropped, and the varieties decreased. The combined operation of some handicraft industries of a service nature resulted in inconvenience to the public and the handicraftsmen. (2) Some phenomena of arbitrary combining occurred in capitalist industry and commerce in the course of reform, and problems similar to the arbitrary combining of handicraft occurred. (3) In the course of organizing agricultural cooperatives, attention to the sidelines pursuits of commune households was inadequate. With the influence from other aspects, the output of some agricultural sideline products somewhat dropped."⁶ These problems were immediately corrected.

After the completion of the basic socialist reform, the main contradiction to be solved was between the people's ever growing material and cultural needs and backward social production. The emphasis of the party's and the state's work must shift to socialist modernization centering on economic construction, greatly developing the productive forces and gradually improving the people's material and cultural lives on this basis. However, due to inexperience in socialist construction and an inadequate understanding of economic laws, we became arrogant and conceited in the face of achievements, exaggerated the effect of subjective will and effort, rashly launched the "great leap forward" movement and the rural commune movement without conducting earnest investigations and studies and establishing experimental units and violated the principle of adjusting production relations to the productive forces. High quotas, arbitrary orders and boasting ran rampant, leading to "left-wing" mistakes which were mainly manifested in "equalitarianism and the indiscriminate transfer of resources" and the "communist wind." With the natural disasters, and the Soviet cancellation of contracts on top of that, China's national economy encountered severe difficulties from 1959 to 1961, and the state and the people suffered gigantic losses. In the winter of 1960, the party and state leaders recognized the mistakes, began to rectify the "left-wing" mistakes in rural work and decided to introduce the policy of "readjusting, restructuring, consolidating and improving" the national economy, thereby bringing harmony to economic relations. As a result of the economic and political measures, the national economy, from 1962 to 1966, recovered and developed fairly smoothly, and a picture of prosperity gradually reemerged in socialist construction. The Third National People's Congress held from the end of 1964 to the beginning of 1965 declared: The task of readjusting the national economy has basically been concluded, and the entire economy will enter a new developmental period. We must vigorously build China gradually into a socialist power with modern agriculture, industry, national defense and science and technology. This strategic decision failed to be fulfilled due to the "Great Cultural Revolution."

During the "Great Cultural Revolution," Lin Biao and the "Gang of Four" conspired to carry out a counterrevolutionary seizure of power and deliberately confused the two different kinds of contradictions in a socialist society. They vigorously advocated the so-called struggle of "one class to overthrow another," criticized the so-called "theory of productive forces only," promoted the "transition in poverty," chopped off the so-called "capitalist tails," stirred up the evil wind of "anarchism" and dragged the national economy to the brink of collapse. Such setbacks fully proved that the relations of the superstructure with the economic base and of politics with economics are, precisely as declared by Engels, always based on certain economic and social functions. "After society has gained independence and changed from public servant to master, political power may produce two effects. It may produce an effect in accordance with the spirit and orientation of economic development compatible with the laws. In this situation, it has no conflict with the economic development, and the latter will accelerate. Or it may produce an effect counter to economic development. In this situation, other than a few exceptions, it will always collapse under the pressure of the economic development."⁷ Therefore, the laws of social

development absolutely cannot be changed according to the will of individuals. In the final analysis, all political struggles are waged around economic liberation. Countering the tide of history, the "Gang of Four" were inevitably submerged by it.

With the downfall of the "Gang of Four," especially after the party's Third Plenary Session, our party, bringing order out of chaos, gradually determined the correct path suitable to China's national conditions for the socialist modernization construction. It pointed out scientifically that China's principal contradiction calling for solution today is that between the people's ever growing material and cultural needs and the backward social production. The emphasis of the party's and state's work must shift to socialist modernization focusing on economic construction, greatly developing the productive forces and gradually improving the people's material and cultural lives on this basis. We must start from China's national conditions in socialist construction, act according to our capabilities, struggle actively and achieve the goal of modernization by steps and phases. The transformation and perfection of the socialist relations of production must adapt to the conditions of the productive forces in order to benefit the development of production. Meanwhile, we must clearly recognize that in China's current socioeconomic structure, state and collective economies are China's basic economic forms and, within a given sphere, the individual economy of the laborers serves as the necessary supplement to public ownership. In view of this, we must introduce concrete management and distribution systems commensurate with the various kinds of economic components. We must implement a planned economy on the basis of public ownership while developing the auxiliary role of market regulation. We must vigorously develop socialist commodity production and exchange. Our party also declared that there is no single fixed mold for the development of socialist relations of production and that our task is to create, in line with the demands of the development of China's productive forces, concrete forms commensurate with the various phases and facilitating the continuous progress of the relations of production.

In his report at the party's 12th Congress, Comrade Hu Yaobang pointed out the principle on the correct deployment of China's socioeconomic structure. He declared: "Public ownership of the means of production is the basic system of China's economy.... The socialist state-owned economy occupies the dominant position in the entire economy. Consolidating and developing it are decisive in ensuring the advance of the laboring people's economy of collective ownership along the socialist orientation and in guaranteeing the subservience of the individual economy to socialism. As the developmental level of China's productive forces as a whole is still fairly low and quite uneven, we will need the coexistence of manifold economic forms for a long time to come. In rural areas, the cooperative economy under the laboring people's collective ownership serves as the main economic form. At present, urban handicrafts, industry, construction, transportation, commerce and the service industries should not be exclusively operated by the state-owned economy, nor is it possible to do so, and a considerable part of them should be handled by collectives. The cooperative economy jointly funded and operated by urban youths and other residents has developed in many areas

in recent years and has produced a favorable impact. The party and the government should render them support and guidance; there must absolutely be no elbowing or attacking from any quarter. In rural and urban areas, we must encourage the appropriate development of the individual economy of the laborers within the limits prescribed by the state and under the management of industrial and commercial administrations to serve as the necessary and beneficial supplement to the economy of public ownership. Only the rational deployment and development of manifold economic forms will bring prosperity to the urban and rural economies and convenience to the people's lives."⁸

The principle discussed above is a summation of the practical experiences in building the socioeconomic structure in the 32 years since the founding of the nation. While affirming the public ownership of the means of production as the basic system of China's economy and the dominance of state ownership in the entire economy, it clearly points out the imbalance in the development of China's productive forces and the need for the simultaneous coexistence of manifold economic forms for a long time to come, thereby pointing out the direction for the further rationalization of China's socioeconomic structure.

2. Relations between Financial Distribution and the Socioeconomic Structure

In production relations, the ownership of the means of production is decisive. As we know, the means of labor are not only the measure of the development of the productive forces of mankind but also the indicator of the social relations achieved, including labor. The particular patterns and methods of the combination of the laborers with the means of production determine people's interrelations in production and the patterns of product exchange and distribution, and every kind of distribution pattern will vanish along with the particular commensurate production mode which emerged with it. Thus, ownership of the means of production is the basis of the relations of production and the main symbol of the socioeconomic structure.

As financial distribution is a special link in the distributive relations, ownership among the sum total of production relations also determines the forms and methods of financial distribution. Distribution is determined by production. Without the production of products, there can be no distribution. Thus, the nature of production determines the nature of distribution, because any distribution is no more than the result of the distribution of production conditions. Nevertheless, production and distribution are two different functions, and each of them is mostly under special external influences; therefore, they mostly have their own special laws. Yet they are mutually conditioning and mutually influencing. Thus, distribution is determined by production, yet reacts on production.

As we know, productive forces are the material part of the mode of production, and production relations are its social form. The law of adjusting production relations to the nature of productive forces is the law of the contradictory motion of the production mode. Productive forces determine production relations. But the latter also exerts a tremendous reaction on the former,

promoting or blocking their development. Their unity and struggle result in the internal contradictory motion of the production mode. Changes in the production mode will inevitably lead sooner or later to changes in the gigantic superstructure and propel society to develop from the low level to the high level. In a society based on the private ownership of the means of production, it is impossible for the contradictions between production relations and productive forces to be solved by its social systems; they can only be solved by means of a social revolution whereby the advanced class representing the new productive forces overthrows the ruling class representing the old production mode. Nevertheless, it is not equivalent to saying that production relations are merely a negative reflection of productive forces, or that distribution relations are merely a negative reflection of the ownership of the means of production. According to the Marxist viewpoint, production relations also exert a tremendous reaction on productive forces, as do distribution relations on the ownership system. This point can be illustrated as follows: In its transition from workshop handicrafts to mass production, capitalism provided the primitive accumulation for modern industry by means of such financial distributive levers as national debts, modern taxation and protective customs and promoted the development of the capitalist mode of production. Marx declared: "All of these methods utilize state power, namely, centralized and organized social force, to promote vigorously the process of transformation from the feudal production mode to the capitalist mode and shorten the transition time."⁹ In China's socialist construction, the system of progressive taxation of capitalist industry and commerce and the differential treatment of public and private businesses, the support of the collective economy by tax reduction and exemption and financial aid, and especially the gigantic investments in state-owned enterprises all produced a favorable impact on rapidly building the socialist economic system. Precisely as Lenin declared, "Any social system can only emerge with the financial support of a particular class."¹⁰

By our discussion above, we absolutely do not advocate that distribution decides all. The theory that places distribution beyond the production mode, feeling that it can be arbitrarily handled according to subjective will, is counter to objective laws and scientific, Marxist principles. There were historic lessons in such mistakes, and the "equalitarianism and indiscriminate transfer of resource" of the "Great Cultural Revolution" are examples.

The purpose of studying the reaction of distribution relations on productive forces, the position of financial distribution in the sum total of production relations and its reaction on the socioeconomic structure is to recognize that the forms and methods of financial distribution must adapt to the socialist production mode, follow the social developmental laws and consciously promote the consolidation and development of the socialist socioeconomic structure, i.e., the socialist economic base. We must firmly keep in mind the principle of adjusting production relations to the productive forces and adapting the superstructure to the nature of the economic base and must interpret the socialist financial distribution in the context of the sum total of the relations of socialist production. But the concrete forms and methods of financial distribution should be created according to practical experience. As stated by Marx, "it does not prevent identical

economic bases, identical in terms of the principal conditions, from presenting in appearance innumerable variations and differences in degrees due to countless different experimental facts, natural conditions, racial relations and external influences of all kinds, and these variations and differences in degrees can only be comprehended by analyzing the facts supplied by experience."¹¹ We must oppose the model theory to the concrete reality as well as the theory of the arbitrary determination of distribution and that of spontaneity where man is powerless before the laws.

3. Financial Management under the Coexistence of Manifold Economic Components

In addition to the public ownership of the means of production, which is the basic system of China's economy, the state-owned and collective economies, which are our basic economic forms, and the laborers' individual economy within a certain sphere, which serves as the necessary supplement to public ownership, there is also the joint Chinese-foreign economy. Therefore, manifold economic components coexist in the present phase and reflect manifold forms of ownership. Since the financial distribution relations is determined by the ownership system, in a society where manifold economic components coexist, are there manifold financial distribution relations? The question should be answered thus: On the one hand, the different economic components must have appropriate and different financial distribution relations; on the other hand, the essence of socialist finance is not jointly determined by the manifold economic components but rather by the nature of the dominant economy of popular ownership. It is an important key to understanding socialist finance.

The essence of socialist finance is the planned distribution and redistribution of social products and national income carried out by a proletarian state for the purpose of upholding and strengthening the socialist superstructure and economic base and of developing the national economy and satisfying the people's needs. Which component determines this essence? Is it the economy of collective ownership? Obviously not. Though the economy of collective ownership is a sort of public ownership, the degree of its socialization is the degree of the combination of the laborers and is rather elementary in nature. Though its goal of production is to satisfy social need, it primarily focuses on the needs of the small society constituting the collective economy; though its means of satisfying the need is also by developing production, what it develops is the production within its own small sphere. The collective economy must also organize by planning its production, circulation and distribution, but such planning only applies to one economic unit and cannot cover the entire economy. Therefore, it is impossible for the economy of collective ownership to play a determining role in the essence of socialist finance. Naturally it is even more farfetched for urban and rural small production, which is still found in the socialist phase, to do so. Thus, only the economy of popular ownership representing the interest of all the people is the component determining the essence of socialist finance. The economy of popular ownership is a combine composed of many individual enterprises, but the individual enterprises, like the cells in the human body, will not strive for independence as long as they do not become cancerous. Under the command of

the brain and the nerves, they, with their special functions, unconditionally promote the survival and development of the entire body, while the body supplies nutrition without interruption to make sure that they develop their special functions. The fact that the body possesses strength is because its countless cells, dividing the labor and cooperating under a central command, form a unified organism. The fact that the socialist economy possesses strength is primarily because its tens of thousands of popularly owned enterprises serve as cell units which divide the labor and cooperate under the leadership of unified planning. The characteristics and superiority of socialist finance are primarily because it is based on the popularly owned enterprises. The products created by the popularly owned economy belong to the state, not to the enterprises. Thus, the state can centralize them through financial channels and distribute them in the national sphere, thereby attaining the goal of developing the entire national economy and satisfying the needs of the whole society.

The sociality of socialist finance is inevitably manifested in its relations with the diverse economic components. What it collects from them, for instance, is limited to a part of their net income and is not in the narrow interest of any particular class but is for the development of the entire national economy and the satisfaction of the needs of the entire society. Taking from the people and using for the people, socialist finance is nonexploitative. Setting its sight on the overall situation, it regulates the interest between the diverse economic components, between industry and commerce and between advanced and backward areas. That all these essences and characteristics differ from the finances of the past is because of the ownership of the means of production by society achieved by the dominance of the proletariat; in other words, it is determined by popular ownership.

Nevertheless, the fact that the nature of socialist finance is determined by popular ownership absolutely must not be interpreted to mean that the state may follow the same principle as the economy of popular ownership in handling the financial distribution relations of the other economic components, for if so, we will make big mistakes.

Thus, when studying the relations between financial distribution and the socioeconomic structure, we must search for the appropriate financial distribution forms for the various economic components, in order to ensure the state ample revenue to implement the planned economy, while activating the enthusiasm of the various economic components, so that the productive forces will develop more rapidly and the optimum economic results will ensue.

The study of the relations of the distributive structure with the national economic structure and of financial balance with the overall balance of the national economy involves the organization of the productive forces and the balance between money and things. However, organizing the productive forces and balancing money and things, in the final analysis, have to rely on people to be carried out. Yet people are people in society, in diverse social groups and with diverse production relations. Whether their enthusiasm and creativity can be fully developed is greatly influenced by the relations of distribution. Thus, if we stop only at things and at the productive forces

and fail to study the relations between financial distribution and the socioeconomic structure, we will be seeing only material factors to the neglect of human ones, indicating our failure to master the ways to make money, amass money and use money.

If people should ask why we must study the relations of financial distribution with the socioeconomic structure, our answer is thus: It is for the purpose of adapting the financial distribution relations and forms to the demands of the socialist mode of production and the relations of socialist production to the productive forces more successfully, thereby promoting the consolidation and perfection of the production mode and the development of the forces of social production. In short, it is to study the socialist way of managing money, and money management is subdivided into amassing, using and making money. Therefore, it is to study the three ways of money.

First, amassing money. Naturally, the more that is amassed, the better it is, but there is a proper way. The proper way is by appropriate forms, methods and amounts.

Different forms and methods of collecting money must be adopted for the different economic components. Under different historical conditions, different forms and methods must also be adopted for the same economic component. The forms of collection for the economy of popular ownership, for instance, are taxation and profit, and the methods of collection are by strengthening the management of funds and costs and expanding the enterprise's net income by means of macrocontrol. As for the numerical limits, the state takes the greater part of the enterprise's net income and leaves it a certain portion as funds needed for its operation and activities. In other words, the state demands that the enterprise undertake economic responsibilities, grants it the corresponding financial power and links its income with its achievement in order to develop its pioneering spirit. In terms of the collective ownership, we cannot copy the forms and methods used for state-owned enterprises, nor can we follow the same principle (rights and obligations) when determining the numerical limits. The study of different ways of collection for the various economic components is extremely important. It is not merely a question of how much but also affects the consolidation and development of the various economic components and their enthusiasm in developing production.

Second, using money. Lenin said: "No matter what social system, it will only develop with the financial support of a particular class." However, for different economic components, the forms, methods and even scales of financial support should not and cannot be identical. In regard to the forms of investment in popular ownership, we may follow the method of planned allocation, providing the enterprises with the funds needed according to the scales of their operation, or we may resort to planned distribution in the form of credits. In terms of the collective economy, as the ownership differs, the enterprises must rely mainly on themselves for funds, while the state, according to need and feasibility, renders the necessary financial support, mainly in the form of credit. Studying the different ways of using money on the different economic components is an extremely important issue.

If handled correctly, more can be accomplished at less cost; if not, it will lead to waste and produce unfavorable results.

Third, making money. Making money depends on developing the economy, which hinges on activating the enthusiasm of the various economic components. Under popular ownership, we rely mainly on planned and proportionate distribution and the enthusiasm of the various economic management departments and areas. How do we activate, by properly handling the financial distribution relations between the state and the enterprises and between the central and local governments, the enthusiasm of all sides in developing the economy, increasing production and practicing thrift? How do we activate, by properly handling the financial distribution relations, the enthusiasm of the various economic components, enterprises, departments and localities without hampering the implementation of the state's unified plans and enable the national economy to develop in harmony? It is an extremely important and complex issue. If properly solved, the sources of revenue will continue to grow steadily; if not, it will lead to confusion and affect revenue.

In short, in terms of the socioeconomic structure, the goal of the three ways of money is to perfect the relations of socialist production by continuously improving the relations of distribution and to activate the enthusiasm of all quarters in developing production and increasing social wealth.

Such is our purpose in studying financial distribution and the socioeconomic structure. How should we launch the study?

First, we need to devote some space to discussing the relations of financial distribution with the economic management system and of the latter with the economic laws. We must study the principal contradictions in the economic management system, the principles of their solution and the planning of financial distribution relations according to the principles.

Next, we must study the financial relations of the state with the enterprises, with the urban and rural collective economy and with the individual economy. We must also consider the financial relations between the state and the joint Chinese-foreign enterprises after introducing the open-door policy.

In China, all economic components and enterprise units act under the leadership of the various responsible departments of the State Council and the provinces, cities and autonomous regions. Therefore, to develop an effect on the economic base, the state and the superstructure must go through the intermediary of many localities and departments. Thus arises the issue of the rights and responsibilities between the state and the localities and departments in regard to distribution. It is an important aspect of the economic management system, namely, the financial management system.

We have gained much positive and negative experience in these problems in our practice of 32 years, and we have much international experience available as our reference. Our task is to study earnestly the experiences and find the patterns in order to handle properly the distribution relations of our

state with the various economic components, arrange properly the financial management system and improve greatly our skill in making, amassing and using money.

II. Relations among the Economic Laws, Management Systems and Levers

Economic management systems are the forms and methods of managing the economic organizations by the state. A specific economic structure, i.e., economic base, requires a commensurate superstructure. To date, any society still in the midst of class opposition needs a state. Representing the will of the ruling class in applying legal sanctions on the economic base, the state is the most powerful superstructure. It creates rules and orders to safeguard the consolidation and development of the current economic base. Nevertheless, in view of the different kinds of ownership in different class societies, the rules and orders created by their states are also quite different. In a capitalist society, for instance, the operation and management, decisionmaking and profit or loss of the capitalist enterprises are all the affairs of the capitalists themselves, and the state has no need to delve into the private enterprises and exercise management over their production, circulation and distribution. All it has to do is to create from the outside rules and orders facilitating reproduction.

In a socialist economic structure, the absolute dominance of popular ownership places it in the leading position over other economic components. Therefore, the state, representing the economy of popular ownership, must delve into social reproduction; create a set of rules and orders encompassing production, exchange and distribution; and exercise management at various levels. The rules, orders, forms and methods created for the management of the various socialist economic components constitute what we usually refer to as economic management systems. They are the concrete reflections of the relations of socialist production.

The quality of economic management systems is determined by their capacity to promote the consolidation and development of the existing socioeconomic structure. In studying economic management systems, we must, on the basis of understanding the objective laws, enhance our consciousness and avoid blindness, so that the rules, orders, forms and methods created to manage production, circulation and distribution conform to the demands of socialist economic laws, adapt the relations of socialist production to the development of the productive forces and produce a strong propellant effect.

1. Starting Point of Socialist Economic Management

It has been merely 60-odd years since Lenin created the first socialist system, and barely 34 years since it was established in China. As a whole, our practical experiences are still inadequate, and we are in the course of gradually deepening our understanding of the objective economic laws. Nevertheless, one truth has been proved by practice: The great victory of our socialist revolution was the result of integrating the universal truth of Marxism with China's concrete revolutionary reality. The setbacks in revolution and construction were due to the failure in their proper integration, or, one may say, the severance of theory and practice.

in terms of socialist economic management systems, the principle of the inevitability of the developmental law of the human society proposed by the founders of Marxism is a universal truth. However, we cannot, nor should we, ask them to prescribe for us the concrete course, especially when it comes to the problems of the concrete practice of our socialist economic construction. To build China, an economically and culturally backward country, into a modern socialist power is the greatest creative project in human history. The countless problems involved were never before brought up and solved by them, nor was it possible for them to have done so. Precisely as stated by Lenin, "a true 'economic worker' certainly knows that even in the most advanced countries, the capitalists and Trotskyist organizers must spend years, sometimes a decade or more, studying and examining their own (and others') practical experiences, correcting and revising the work already launched and starting all over again, while correcting repeatedly over and over again, before finding a completely suitable management system and selecting and promoting the suitable high- and low-level administrative personnel. It is the situation under the capitalist system.... Yet we are pursuing construction on a new basis; therefore, we are called on to carry out a long-term, tenacious and patient reform of the habits left to us by capitalism, and it can only be done one step at a time."¹² Therefore, we must integrate the universal truth of Marxism with the concrete practice of China's revolution; we must firmly carry on and learn the standpoints, viewpoints and methods of Marxism-Leninism and Mao Zedong Thought, go deep into the reality of all realms, systematically investigate and study, summarize the positive and negative lessons of experience, find the patterns, accumulate new experiences and study new problems in the great new practice and propel Marxism-Leninism and Mao Zedong Thought forward.

As we all know, though our current financial and economic management systems have been continuously revised and reformed, there are still things unsuitable to the development of the productive forces. There are still matters not adapted to the socialist economic laws in our planned management. The absence of the complete conformity of our economic structure to the demands of the basic economic law of socialism, for instance, blocks social reproduction; the absence of the complete compatibility of the financial and economic systems with the multilevel relations of production hampers the full activation of the enthusiasm of all sides, affects the productive fervor of the various economic components and of the broad workers and hinders the development of the productive social forces. Due to the lack of coordination in applying the various economic levers, such as pricing, taxation, profits, wages and bonuses, finance, credit and the forms of resource interchange, we fail to embody properly the demands of the socialist economic laws, thereby blocking the development of the superiority of the socialist system and the improvement of its socioeconomic benefits. As pointed out by Comrade Hu Yaobang in his report at the party's 12th Congress, "in the past several years, we introduced some reforms in the economic system, enlarged the authority of the enterprises in planned management and gave attention to the regulatory role of the market. The direction is correct and the achievement obvious. However, as some of the reform measures were not in complete sets and the corresponding management work failed to keep pace, the phenomenon of undermining and blocking the unified planning of the state somewhat developed."¹³ "In the past several years, state revenue,

on the one hand, decreased somewhat, and there was a shortage of funds for the urgent key projects. On the other hand, the fairly large increases in the funds of the localities and enterprises were spent on many projects regarded by them as urgent. Thus, it was bound to be difficult to conform completely to the needs of the whole in the national sphere and to prevent blindness in construction. We should realize that if the key projects of the state are not ensured and such basic facilities as energy and communication are not undertaken, the overall situation of the national economy will not prosper and the development of the various parts will inevitably be greatly restricted. Even if certain developments are made now and then and here and there, it is difficult to achieve a balance in supply, production and marketing and sustain the developments. We must firmly establish the idea of 'taking the whole country as a chess game.'¹⁴ What is proposed here is the issue of the relations between planning and enthusiasm as well as between centralism and power sharing and between planning and freedom in the system. We know that the absence of unified planning will lead to blindness, and it will be difficult to unify the proportions, balances, results and rates of speed. In addition, without the correct systems to manage the enthusiasm of all sides, there will be no motive force, and social production will fail to develop. However, with planning and a rational system, if we fail to apply properly the various economic levers, lack of coordination may appear, thereby affecting the development of the superiority of the socialist system.

Therefore, we must study the problems in these aspects, find the ways and means of solution and continuously perfect the socialist economic system, in order to develop fully the superiority system. It is our starting point and goal in studying the reform of the financial and economic systems.

The superiority of the socialist system is its capacity to reform consciously. Thus, we must integrate the universal Marxist truth, namely, adapting the production relations to the productive forces, and the superstructure to the economic base, with China's reality, and master its concrete application. When studying the economic systems, we must, for this reason, take the basic Marxist truth and its scientific methods as the guide, integrate them with China's concrete practice and absolutely refrain from simply transplanting the models of other countries. In his opening speech at the party's 12th Congress, Comrade Deng Xiaoping said: "Our modernization construction must start from China's reality. Whether revolution or construction, we must study and refer to foreign experiences. However, copying and transplanting the experiences and models of other countries have never worked, and we have learned many lessons in this regard. Integrating the universal truth of Marxism with China's concrete reality, walking our own path and building a socialism with Chinese characteristics are the basic conclusion in our summation of the long historical experience."¹⁵

2. Relations of the Economic Management System with Economic Laws

Under different production modes, the goals of production and the way of achieving them differ. Therefore, different economic laws, especially basic economic laws, emerge. For this reason, we must give attention to the following problems when studying and reforming the economic management system.

(1) The socialist economy is based on public ownership, and its basic characteristic is planning. The creation and reform of our economic systems should aim at enhancing planning.

The primary condition in enhancing planning is to make our economic activities consciously conform to the objective economic laws of socialism, which include the basic economic law, the law of planning and proportionality, the law of distribution according to labor and the law of value. When we talk about conformity to objective economic laws, we are referring to this set of laws, i.e., the system of laws and not any particular law. However, some people today attribute the mistakes in our economic work entirely to the failure to apply the law of value. They are obviously one-sided. Noticing the "large pot of rice" phenomenon due to the failure to implement the principle of distribution according to labor, others negate the superiority of popular ownership. Seeing the flaws in planning, some people doubt our planned economic system. Summarily calling the incorrect practices of bureaucracy and the issuance of confused orders found in the administrative organs administrative means and the will of the higher level, some people oppose administrative intervention, set administrative means against economic means and place the superstructure in opposition to the economic base. Obviously, all these views are the result of a one-sidedness in understanding.

We feel that the relations between the economic systems and the economic laws are those between the subjective and the objective. Laws are objective, and systems and rules created by us to regulate our own acts after gaining an understanding of the laws. In other words, a system is the subjective reflection of the objective and influences in turn the action of the objective. Naturally, correct reflections will promote the development of the economy, and incorrect ones will block it. Therefore, the primary issue is our understanding of the objective laws. As Stalin said, "Society is not helpless before the laws. Once society understands the economic laws and relies on them, it will be able to restrict the sphere of their impact, utilize them for its own benefit and 'control' them, precisely like the situation of the forces of nature and its laws..."¹⁶ Some people feel that economic laws possess a spontaneity and categorically assert that society is helpless before them. Therefore, they advocate the utilization of the spontaneous mechanism, e.g., the market mechanism. We maintain that the economic management systems are reflections of the objective economic laws in particular phases of society. One important point to determine the coordination, or the lack of it, between the economic management system and the economic laws is the correct application of the economic levers. Wages and bonuses, for instance, are the levers for the law of distribution according to labor, pricing and taxation for the law of value, finance for the law of distribution and credit for the law of circulation. These levers are the instruments to adapt the production relations to the development of the productive forces, and the means for the superstructure to develop a dynamic impact on the economic base. Therefore economic management systems are systems of regulation by means of economic levers. Meanwhile, these economic means are interwoven, mutually conditioning and mutually restrictive. They are managed by the various functional departments of the political organs of the state. Therefore, carrying out such managerial functions is our administrative office, which is embodied in formulating and implementing

policies and supervising their implementation. It is obviously illogical to isolate these acts and call them "administrative means," setting them against the economic means.

The question is whether the policies formulated by the administrative departments, including the division of responsibility and power in the management by levels, conform to the demands of the economic laws. The various management systems, e.g., planning, production, circulation, distribution, price, capital construction, resources, labor wage, etc., constitute a setup. Not only must they closely coordinate, but they must also act according to the economic laws of socialism (several laws, forming a system of laws). The various management systems must all apply different economic levers to regulate economic activities. Thus, the various economic levers form a system of levers. Economic levers are the means to satisfy the requirements of the economic laws; therefore, they must be mutually linked and closely coordinated, instead of acting independently. As a result, the economic laws, systems and levers actually form an intrinsically linked organism. There is also a mutually restrictive and mutually complementary relation in the quantitative limits between the regulatory effect of the levers and the division of power and responsibility of the management systems. The policies mentioned by us are to overcome misalignment and mutual obstruction and reach perfection. Therefore, in reform, we must not consider matters as they stand and rely on subjective imagination but must start from reality and, on the basis of summarizing the practical experiences, analyze by seeking the truth from the facts, avoiding and rectifying the incorrect and affirming and upholding the correct. Only thus will it be possible to perfect the systems of all quarters and develop fully the superiority of the planned economic system of socialism. If we fail to start from national conditions, consider problems apart from the basic socialist system, indiscriminately transplant foreign models without analysis and even copy capitalist things, we will make mistakes. Therefore, China's affairs must be handled according to China's conditions. We must uphold the four basic principles and the basic socialist system. Only under this premise will we create a path to build a socialist power with Chinese characteristics.

(2) Socialist economic management systems must be based on the basic economic laws of socialism.

We discussed above how the party and the state formulated, according to the requirements of the economic laws, the policies and systems and how it fulfilled them by means of the economic levers. Our economic systems underwent many reforms in the past 32 years, and there were some setbacks at times. However, they were, as a whole, continuously improved. What we must study today is how to avoid setbacks and make our economic management systems more sound and more perfect. We feel that one basic point is continuously to improve people's understanding of the objective economic laws on the basis of upholding the four basic principles, raise the ability to control the laws and strive to act according to their requirements. In other words, we must overcome blindness and raise consciousness.

There are many socialist economic laws, but what determines the main economic course can only be the basic economic law of socialism. Different social systems have different goals of production and different methods of achieving them. Thus, different production modes engender different basic economic laws, leading to different forms of distribution and exchange, each with its own special characteristics.

Under the capitalist production mode, production is the private affair of the capitalists, and its goal is to extort the surplus value of the workers. They measure the economic results by capital expenditures and capital profit, namely, the amount of surplus value. Thus, under the capitalist production mode, the basic economic law is the law of exploiting the surplus value. The surplus value law in the non-monopoly capitalist period was manifested as the law of the average profit rate. By the time of monopoly capitalism, it changed to the law of maximum profit. As the goal of capitalist production is surplus value, the law of surplus value determines all main aspects and all main courses of the development of capitalist production and thus the essence of capitalist production. The laws of value, of market demand and supply and of competition all produce an impact under the conditioning of the basic economic law of capitalism.

Classic Marxist writers foresaw the changes under socialist conditions. Engels said: "When people regard the productive force in its final recognized nature, the anarchic state of social production will yield to socially planned regulation of production according to the needs of each and every member of society."¹⁷ What is the nature of the productive force, and how do we develop the productive social force according to it? Engels said: "This solution can only be achieved by recognizing in fact the social nature of modern productive forces; therefore, it is to adapt the modes of production, ownership and exchange to the social nature of the means of production. This point can only be attained by letting society openly and directly own the productive force which has developed to such a stage that it is not suitable to be managed by anyone other than society.... With society's ownership of the productive force, its social nature will be consciously applied by the producers and change from being the cause of chaos and cyclic collapses into the most powerful lever of production itself."¹⁸ In other words, private ownership of the means of production and the socialization of production are the basic contradiction of the society based on private ownership and the root of man's misery. Therefore, Engels proposed that only by changing the capitalist mode of production into the socialist mode will social production develop according to its nature. Once this point, i.e., the form of the combination of the workers with the production means, is clear, the basis for the emergence of the basic economic law of socialism will become clear, and so will the purposefulness of proportionate production and planned regulation. "By contrasting only with commodity production, we assume that the share of the means of production received by each producer is determined by the time of his labor. Thus, the time of labor produces a dual effect. The social and planned allotment of the time of labor regulates the suitable proportions between the labor functions and the various needs. On the other hand, the time of labor also serves as the measure to determine the share of individual producers in the consumptive portion of the common products.

Here, whether in production or in distribution, people's social relations in using their labor and labor products become simple and clear."¹⁹

What Marx and Engels said here are as follows: One point is that under public ownership, planned regulation (regulating production and need) becomes possible, and the other is that the laboring people produce for their own survival--hence, a change in the goal of production, thereby making distribution according to labor possible. In other words, social relations between people have changed in a socialist society based on public ownership, resulting in the emergence of new and special economic laws, namely, the basic economic law of socialism, the law of planned and proportionate development and the law of distribution according to labor. As special laws determined by the socialist mode of production, these three laws are basically nonexistent in a capitalist society. Under socialist conditions, because the level of the productive forces still is not high enough and two kinds of public ownership and other economic components exist, commodity production and exchange cannot yet be eliminated; therefore, there is still the law of value. As common law on commodity production, the law of value is conditioned by the basic economic law of society. Not just the law of value but the planned and proportionate law and the law of distribution according to labor are conditioned by the basic economic law. The failure of proportionality between accumulation and consumption or between individual and social consumption to conform to the requirements of the basic economic law will be punished.

(3) We now come to the relations of the economic systems to the law of value.

The positions and effects of commodity production and the law of value have changed under the socialist conditions. This issue was first brought up by Stalin. Controversies occurred in the fifties, and no consensus has been reached to date. The party's Third Plenary Session summarized the historical experiences since the founding of the nation, exposed and criticized the "left-wing" ideology and probed for the crux of the tremendous ups and downs of the national economy. The theoreticians again discussed the issue and suggested the necessity of developing commodity production and exchange under socialist conditions. The suggestion was meritorious. But what were the causes for the setbacks in the development of our national economy? As the data available to the theoreticians were not the same, their diagnoses differed, and so were their conclusions. All wanted to locate the basic problems in our national economy in order to seize "the nose of the ox," yet there was not consensus on what "the nose of the ox" was. Thus, it was natural for arguments to ensue. Nevertheless, we pursue theoretical studies for the purpose of acting according to objective economic laws and introduce system reform for the purpose of activating the enthusiasm of all sides, improving the national economy and upholding the socialist system. Therefore, the controversy is a major issue involving the future of China and must be clarified.

In the controversy, some comrades suggested that the problems in our economy were due to the influence of Stalin's refusal to recognize the means of production as commodities; therefore, our planned economy was not built on the basis of a "commodity economy" and constituted the source of the "left-wing"

ideology. After rectification, we must firmly develop "commodity economy" and promote the regulatory role of the market mechanism.

Other comrades felt that the problem of China's economy was in the highly centralized planned economic system. There was no separation between government and industry, and the degree of public ownership departed from the level of the productive forces, resulting in the serious consequences of sharing the large pot of rice and ignoring the economic results. Comrades holding this view felt that we must focus on enlarging the self-determining power of the enterprises and that "the enterprises should have the position of independent commodity producers," i.e., the theory of the enterprises as the unit. They opposed administrative intervention, state interference and coercive planning; stressed the role of the law of value; and advocated the regulatory role of the market mechanism. As the understandings were not unanimous, there were diverse interpretations of the resolution of the Sixth Plenary Session. The "Resolution" pointed out: "We must implement a planned economy on the basis of public ownership while developing the complementary role of market regulation." Some people thought that the Party Central Committee made the statement for the purpose of rectifying the one-sidedness in the refusal to recognize the means of production as a commodity and the regulatory effect of the law of value on production. Others felt that the implication of the formulation was to achieve planned regulation through the market mechanism. Still others felt that it was to build the socialist planned economy on the basis of a "commodity economy" or a "planned commodity economy."

To put it in a nutshell, the views discussed above maintained that the main reason for the setbacks of China's national economy was due to overlooking the effect of commodity production and the law of value. I feel that it fails to conform completely to the Marxist truth. Those holding the above views all overlooked a basic issue--the essential characteristics of the socialist economic system. When studying the spheres of action, the forms of manifestation of commodity production and the law of value under socialist conditions, they failed to reflect the economic laws bearing the characteristics of the socialist economy of public ownership, i.e., the basic socialist economic law, the law of planned and proportionate development and the law of distribution according to labor. In particular, they failed to study the qualitative changes of socialist commodity production from capitalist and pre-capitalist commodity production.

I feel that if the issue is not solved, our economic management system will fail to embody the socialist production mode correctly.

Commodity production has undergone different historical phases, and not all commodity production can be called commodity economy. Bartering appeared in the primitive commune, and the products of labor became commodities, but such commodity exchange still cannot be considered as commodity economy. Only when a division of labor in society and commodity exchange became a common phenomenon did commodity economy emerge. By the time of the capitalist phase, when commodity production was transformed into production for capital proliferation, labor became a commodity which was bought and sold and the

exploitation of hired labor turned into the principal part of commodity production, the commodity economy reached the point of perfection.

The law of value is the law governing commodity production and exchange. However, under different social patterns, the forms of its manifestation also differ, because the sphere of its action is restricted by the production modes and goals of the particular societies, i.e., by the basic economic laws. Therefore, small-scale commodity production and non-monopoly capitalist commodity production differ, and so do those of non-monopoly capitalism and monopoly capitalism, while an essential distinction exists between those of capitalism and socialism. In the time of small-scale commodity production, for instance, the productive goal was to achieve the exchange of use value, and the price fluctuated around the value. By the time of non-monopoly capitalism, the productive goal was capital proliferation, i.e., the goal of exploiting the surplus value of hired labor. The contradiction between the private ownership of the means of production and the socialization of production led to anarchy, and competition resulted in the tendency of profit averaging. By then, price was determined by the production cost as well as the value. Therefore, the law of profit averaging, namely, the law of surplus value exploitation, served as the basic economic law of non-monopoly capitalism, while the market economy became its essential characteristic. The law of value was conditioned by the law of surplus value exploitation, instead of acting independently of it. The "big fish eating the small fish" phenomenon resulting from the development of competition inevitably led to monopoly. The goal of monopoly capitalism is maximum profit. Therefore, in the time of monopoly capitalism, the law of profit averaging yielded to the law of high-volume profit, which served as the basic economic law of monopoly capitalism, and the monopolistic price replaced the production price of profit averaging. The development of monopoly capital to the phase of state monopoly capitalism brought about the new factor of state intervention in the economy. However, the intervention in capitalist countries represents the interest of the bourgeoisie, especially monopoly capital. Though the law of value still produces a regulatory effect at this time, it is no longer conditioned by the law of profit averaging as in the non-monopoly capitalist period. By this time the free competitive market economy is replaced by the monopoly market economy, and the law of value is conditioned by the law of monopolistic profit. In the final analysis, the forms of expression of the law of value under the capitalist mode of production, whether the free competition of non-monopoly capitalism or competition between groups of monopoly capitalists, are built on the basis of capitalist private ownership. Even though the forms of expression of the law of value vary (average profit, high-volume profit), they are all controlled by the law of surplus value exploitation. Thus, the law of value is the law of commodity production and exchange but is conditioned by the basic economic laws under different production modes. It is the intrinsic link between the law and the market mechanism.

Under socialist conditions, with the creation of public ownership, especially popular ownership, labor, first of all, is no longer a commodity. It is the essential distinguishing characteristic from the capitalist commodity economy. Next, as there is no capital category in the socialist economy, the goal of

socialist commodity production, instead of capital proliferation, is to satisfy the needs of the cultural and material life of society. Third, no longer divided into capitalists and the classes suffering capitalist exploitation, the people are the masters of the entire means of social production. This determines that our commodity production no longer bears capitalist attributes. However, the form of the commodity still remains. Since it is commodity, the law of value on commodity exchange is bound to produce an effect. Naturally, the sphere and nature of the effect are distinguishable from capitalism. It is the essential distinction between socialist and capitalist commodity production. This essential distinction determines that socialism cannot rely on the market mechanism for the spontaneous and blind regulation of production. As the goal of our commodity production is to satisfy the people's material and cultural needs, we must overcome the anarchic state and implement planned production, distribution and exchange in order to achieve planned consumption. In short, the planned economy constitutes the essential characteristic of socialism. The implementation of the planned centralized management and planned regulation of the production, circulation, distribution and consumption of the whole society is our goal and orientation. As in Marx's words, "the socially planned distribution of the time of labor regulates the appropriate proportions between the various labor functions and various needs."²⁰ It is the essential distinction between a socialist planned economy and a capitalist commodity economy.

If we permit the law of value to regulate spontaneously the socialist economy, calling the latter a "planned commodity economy," i.e., letting the enterprises appear "in the position of independent commodity producers," it will imply that we want each and every production unit to take the pursuit of profit as its goal and place its own interest first, thereby becoming possibly antithetical to the social interest. If so, then what is the distinction from capitalism? Will it not be the "theory of the tendency toward similarity" advocated in the West? Some people feel that it will benefit the business accounting of the individual production units. We feel that if we do so, we will fail to embody the common interest of society, and inevitably exclude the basic economic law of socialism, namely, the continuous perfection of the means of production and the maximum satisfaction of the common needs of all the people, the law of planning and the law of distribution according to labor. If they are excluded, our popular ownership will be demoted to enterprise ownership. What will be the situation then? The tendencies of departmentalism, decentralism and liberalism will inevitably appear in the economic realm, and the trend of undermining and casting off state planning will inevitably emerge. We have today already noticed all of these various phenomena. Therefore, Comrade Zhao Ziyang emphatically pointed out that while we must see the achievements gained by opening the door and enlivening the economy, we must also soberly recognize the problems emerging in the process. He asked that we, while following the open-door policy, enlivening the economy and pursuing reform, give serious attention to the problems, conscientiously summarize the experiences and earnestly solve the problems, for the sound and intensive development of system reform.

Naturally, as commodity production and exchange still exist under socialist conditions, the law of value will produce a regulatory effect. Therefore, we must face up to it and consciously make it serve socialism, but we must not permit it to act spontaneously. We must make it act under the conditioning and influence of the basic economic law of socialism, the law of planning and proportionality and the law of distribution according to labor, the economic laws representing the essential characteristics of socialism. For this reason, our superstructure and our governments and organs at all levels must properly apply the economic levers to regulate the contradictions between the law of value and that of planned and proportionate development.

Marx felt that "society's direct and conscious control of the time of labor is only possible under public ownership."²¹ The public ownership referred to by Marx is not completely identical with our actual public ownership. Two kinds of public ownership, namely, popular and collective ownership, are found in our socialism. Their commonality is public ownership, and their difference is the degree of such ownership. The degree of public ownership is the base determining the socialist system. Only popular ownership constitutes the condition for the emergence of the law of planning and the law of distribution according to labor as well as the basic economic law of socialism, thereby engendering the certainty and possibility of implementing a planned economy. Meanwhile, the presence of collective ownership and other economic components is the special characteristic of commodity production and exchange under socialist conditions. Therefore, clarifying the commonality and the difference becomes the decisive factor delineating our economic management systems and determining the depth and width of planned management.

When studying China's socialist mode of production, some comrades today blame public ownership entirely for the problem of departing from the developmental level of the productive forces in China's socialist reform in the past. It is an incorrect view. When we say that certain aspects of production relations departed from the productive forces in the past, the departure was mainly found in agriculture, handicrafts, commerce and the service industries, not in modern industry. Therefore, we must not negate everything totally. Popular ownership of modern industry is a necessity of production socialization and required by the characteristics of modern large industry itself. Those who call popular ownership "government industry" and "government commerce" are wrong. When we say that they are wrong, we do not mean that the bureaucratic practices and incorrect ideologies and styles pointed out by them do not exist or should not be corrected and overcome; what we mean is that they confuse the contradictions of different natures. They fail to realize that the incorrect ideologies and styles found in our state-owned enterprises are the very reflections of bourgeois ideology and feudal remnants. We must not lump together the problems of incorrect ideologies and styles with socialist public ownership. Contradictions of different natures must be handled by different methods. As stated precisely by Comrade Mao Zedong, "in short, the socialist relations of production have been established, and they are compatible with the development of the productive forces. Nevertheless,

they are still very imperfect, and such imperfections are contradictory to the development of the productive forces. Besides the situation between production relations and the development of productive forces, the state of being both compatible and contradictory is also found between the superstructure and the economic base. The state system and laws under the people's democratic dictatorship and the socialist ideology with Marxism-Leninism as the guide, which are the superstructures, have produced a positive propellant effect on the success of China's socialist reform and the building of the socialist organization of labor. It is compatible with the socialist economic base, namely, the socialist relations of production. However, bourgeois ideology, certain bureaucratic practices in state organs and the flaws in certain links of the state system are contradictory to the socialist economic base. In the future we must, according to the concrete conditions, continue to solve the contradictions. Naturally, after they are solved, new problems will arise, and new contradictions again need to be solved."²²

The reform of the economic management systems is for the purpose of correcting the flaws in certain links of the state system, making the superstructure more compatible with the socialist economic base and perfecting the production relations in order to adapt to and propel the development of productive forces. Nevertheless, systems, in the final analysis, are created by people, and the solution of contradictions requires people to understand the objective economic laws, correctly formulate the management systems and correctly apply the various economic levers, thereby correctly mastering, wielding and controlling the economic laws and propelling social development. Therefore, we must have a complete comprehension of the economic laws of socialism and take a concrete analytical attitude toward the concrete contradictions and problems. Otherwise, any one-sidedness or confusion of the natures of contradictions will violate objective economic laws and lead to mistakes.

FOOTNOTES

1. "Complete Works of Marx and Engels," Vol 25 p 894.
2. Op. cit., Vol 13 p 8.
3. Op. cit., Vol 13 p 9.
4. Op. cit., Vol 20 p 318.
5. Op. cit., Vol 20 p 308.
6. "Documents of the Eighth National Congress of the CPC," p 329.
7. "Complete Works of Marx and Engels," Vol 20 p 199.
8. "Collection of Documents of the 12th National Congress of the CPC," pp 22-23.

9. "Complete Works of Marx and Engels," Vol 23 p 819.
10. "Complete Works of Lenin," Vol 33 p 424.
11. "Complete Works of Marx and Engels," Vol 25 p 892.
12. "Complete Works of Lenin," Vol 32 p 78.
13. "Collection of Documents of the 12th National Congress of the CPC," p 24.
14. Op. cit., p 20.
15. Op. cit., p 3.
16. "The Issue of the Socialist Economy of the Soviet Union," p 4.
People's Publishing House, 1961 Beijing edition.
17. "Complete Works of Marx and Engels," Vol 20 p 304.
18. "Complete Works of Marx and Engels," Vol 20 p 304.
19. Op. cit., Vol 23 pp 95-96.
20. Op. cit., Vol 23 p 95.
21. Op. cit., Vol 4 p 365.
22. "Selected Works of Mao Zedong," Vol 5 p 734.

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BRIEFS

EXPORTS TO EUROPE--The nation's exports to Europe increased last year for the first time in 3 consecutive years when export value exceeded U.S. \$2.761 billion, a rise of 6.6 percent from 1982. The China External Trade Development Council indicated that exports to Europe will grow even more significantly to exceed U.S. \$3 billion this year as a result of the recovery of economies in the region. Exports to Europe in the first 2 months of this year increased by 18.4 percent over the same period in 1983. Statistics also show an increase of 7.3 percent in ROC [Republic of China] imports from Europe last year when total value exceeded U.S. \$2.27 billion. Last year, 89.7 percent of the nation's exports to Europe went to the 10-nation Common Market and 7.9 percent were absorbed by the 7-nation European Free Trade Association. West Germany remained the biggest European buyer of Taiwan products, followed by Britain, the Netherlands, France, Italy, Belgium, Sweden, Switzerland, Spain, and Denmark in that order. The growth rate of exports to Luxembourg last year topped those of other European nations to reach 94.6 percent, followed by 66.4 percent for Ireland, 36.7 percent for Austria, and 24.1 percent for Finland. All other export increase rates to European nations were below 17 percent. Exports to France and Italy, however, dropped by 15.4 percent and 11.7 percent respectively last year. Exports to five other European nations also decreased by 20.5 percent for Spain, 8.4 percent for Greece, and 2.9 percent for Norway. [Text] [OW301201 Taipei CHINA POST in English 25 Apr 84]

AGRICULTURAL AGREEMENT WITH SWAZILAND--Taipei, 1 May (CNA)--Chu Fu-sung, minister of foreign affairs of the Republic of China, and U.S. Mamba, minister of agriculture and cooperatives of Swaziland, Monday signed on behalf of their respective governments the ROC-Swaziland Agricultural Technical Cooperation Agreement. The signing ceremony was held at the Ministry of Foreign Affairs. The Government of the Republic of China agreed in the document to expand the existing cooperative ties between the two countries. The ROC Agricultural Technical Assistance Mission will continue to be stationed in that South African kingdom to help promote agricultural development there. The agreement is valid for 3 years effective from 30 April 1984. It may be extended, with the approval of the two governments, for another 3 years each time. [Text] [OW010329 Taipei CNA in English 0237 GMT 1 May 84]

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